DOCUMENT RESUME

ED 046 837 SO 000 572

AUTHOR	Davison, Donald G.; Kilgore, John H.
TITLE	The Child's World of Choices.
INSTITUTION	Iowa Univ., Iowa City.
PUB DATE	68
NOTE	179p.
AVAILABLE FROM	Bureau of Business and Economic Research, College of Business Administration, University of Iowa, Phillips Hall, Iowa City, Iowa 52240 ($2.50, 1 to 10 copies)
EDRS PRICE	EDRS Price MF-$0.65 HC Not Available from EDRS.
DESCRIPTORS	*Concept Teaching, *Economic Education, Economics, Fundamental Concepts, Grade 1, Grade 2, Grade 3, Inquiry Training, Kindergarten, *Learning Activities, Multimedia Instruction, Primary Grades, *Social Studies Units, *Teaching Guides

ABSTRACT

This publication serves as a supplement to social studies guides in kindergarten through third grade. As such, it provides a means of incorporating economic understandings into the social studies curriculum. The aim is to develop in a sequential and systematic fashion the student's ability to identify and analyze significant economic forces operating in the world around him. It is organized by grade level, with five basic economic generalizations. While the statements of the generalizations remain unchanged throughout the text, their treatment becomes more complex and sophisticated with each successive grade. An overview and a teaching guide follow each generalization at each grade level. The overview gives a nontechnical and comprehensive explanation of the generalization and provides the general framework for structuring each activity. The teaching guide includes a list of economic terms and their definitions provided to aid the teacher's understanding of the material. It also includes child-oriented activities designed to convey the major concepts to be developed for each generalization. Teachers at each grade level should be familiar with activities undertaken in both prior and subsequent grades. Two supplementary parts of the packet are described in SO 000 573 and SO 000 574. (SBE)

ED0 46837

Carolina
Room Scenter Candles
GUITAR
ROMPER ROOM GUITAR
IT'S FUN
TO MAKE

The Child's World of Choices

By DONALD G. DAVISON and JOHN H. KILGORE

SO 000 572

Bureau of Business and Economic Research
The University of Iowa, Iowa City, Iowa

ED0 46837

"PERMISSION TO REPRODUCE THIS COPYRIGHTED MATERIAL BY MICROFICHE ONLY HAS BEEN GRANTED BY
JOHN E. SIMMONS
TO ERIC AND ORGANIZATIONS OPERATING UNDER AGREEMENTS WITH THE U.S. OFFICE OF EDUCATION. FURTHER REPRODUCTION OUTSIDE THE ERIC SYSTEM REQUIRES PERMISSION OF THE COPYRIGHT OWNER."

The Child's World of Choices

by

Donald G. Davison

The University of Iowa

and

John H. Kilgore

Des Moines Public Schools

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
OFFICE OF EDUCATION
THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL OFFICE OF EDUCATION POSITION OR POLICY.

Bureau of Business and Economic Research
College of Business Administration
The University of Iowa, Iowa City
1968

Copyright © 1968 by
The University of Iowa
Library of Congress Catalog No. 68-65479

All rights reserved. No part of this book may be reproduced in any form without permission from the publishers.

Foreword

The inclusion of economic generalizations into the social studies curriculum at the primary school level in a systematic and meaningful way for the teacher and student is a relatively new development. Work in this area was crystallized in 1964 by the Joint Council on Economic Education through a program designated Developmental Economic Education Program (DEEP). This publication is part of the DEEP program, which was undertaken by the greater Des Moines Committee, Des Moines, Iowa; the Joint Council on Economic Education, New York City; the Iowa Council on Economic Education, Iowa City; and the Bureau of Business and Economic Research of The University of Iowa, Iowa City, Iowa.

Credit for the organization and content of this publication, the coordination of many persons toward a common goal, and the final fruition of these efforts are due primarily to Donald G. Davison, Consulting Economist, the Bureau of Business and Economic Research, The University of Iowa; and John H. Kilgore, Supervisor of Social Studies for the Des Moines Public Schools.

The authors have shown skill and originality in the selection of content and the presentation and organization of materials. This publication is a significant contribution to the development and improvement of teaching materials for the classroom.

L. G. Sgontz
Acting Director
Bureau of Business and
Economic Research
The University of Iowa

Table of Contents

Page

Foreword . . . . *iii*

Preface . . . . *vii*

Acknowledgments . . . . *viii*

Economic Generalizations to be Examined . . . . *ix*

Section

I KINDERGARTEN 1

Generalization I 3

Generalization II 11

Generalization III 21

Generalization IV 27

Generalization V 33

II FIRST GRADE 41

Generalization I 43

Generalization II 49

Generalization III 59

Generalization IV 65

Generalization V 75

Page

III SECOND GRADE 83

Generalization I 85

Generalization II 93

Generalization III 105

Generalization IV 113

Generalization V 121

IV THIRD GRADE 135

Generalization I 137

Generalization II 145

Generalization III 155

Generalization IV 165

Generalization V 175

Appendix

A *KINDERGARTEN* *17*

B *FIRST GRADE* *55*

C *SECOND GRADE* *101*

D *THIRD GRADE* *152*

Preface

THE CHILD'S WORLD OF CHOICES serves as a supplement to social studies guides in grades kindergarten through third. As such, it provides a means of incorporating economic understandings into the social studies curriculum. The publication is organized by grade level, with five basic economic generalizations providing the focal point for the material. While the statements of the generalizations remain unchanged throughout the text, their treatment becomes more complex and sophisticated with each successive grade.

An Overview and a Teaching Guide follow the statement of each generalization at each grade level. The Overview gives a nontechnical and comprehensive explanation of the economic generalization and provides the general framework for structuring each activity. Therefore, it is essential that the teacher be thoroughly familiar with the Overview before engaging children in activities contained in this publication.

The Teaching Guide includes a list of economic terms and their definitions provided to aid the teacher's understanding of the material. It also includes child-oriented activities designed to convey the major concepts to be developed for each generalization. Since the treatment of each generalization increases in scope and complexity in successive grades, teachers at each grade level should be familiar with activities undertaken in both prior and subsequent grades.

We make no apologies concerning the restrictive treatment of the subject matter. It is our contention that to include everything in an introductory effort tends to confuse both the teacher and the student and to obscure the most basic ideas underlying the discipline of economics. The aim is to develop in a sequential and systematic fashion the student's ability to identify and analyze significant economic forces operating in the world around him.

It is our intention to develop additional generalizations for later grades and to provide a more sophisticated treatment of present generalizations. The present publication must be recognized as a point of departure for improving economic education in the elementary grades. Experimental use under controlled conditions will indicate the need for subsequent revisions.

Donald G. Davison
John H. Kilgore

August, 1968

Acknowledgments

The development of this publication would not have been possible without the active encouragement and support of Dwight M. Davis, Superintendent of the Des Moines, Iowa, Independent Community Schools; B. L. Barnes, Dean of the College of Business Administration, The University of Iowa; and L. G. Sgontz, Acting Director, Bureau of Business and Economic Research, The University of Iowa.

Appreciation is also expressed to the many elementary grade teachers in the Des Moines schools who gave unselfishly of their time and energy in incorporating economic understandings into their social studies programs; and to the following staff members of the Bureau of Business and Economic Research, The University of Iowa: Miss Dorothy Arp, Gary Fethke, Donald DelMar, David Scott, and Miss Linda Bird, Research Assistants, for their contribution in developing the various sections; Gene Smiley, for his art work; Miss Edith Ennis and Mrs. Cheryl Loftus for their invaluable editorial assistance.

D.D.
J.K.

ECONOMIC GENERALIZATIONS
TO BE EXAMINED

Economic Generalization I

Because of limited income, consuming units must choose which of their many wants for goods and services they will satisfy through purchases in the market place.

Economic Generalization II

Scarce resources are required for the production of goods and services.

Economic Generalization III

Households earn money income by selling the services of their productive resources to businesses and, in turn, use household income to purchase goods and services from businesses.

Economic Generalization IV

Some of people's wants for goods and services are satisfied through government.

Economic Generalization V

Households may save part of their money income.

SECTION I

Kindergarten

Economic Generalization I

Because of limited income, consuming units must choose which of their many wants for goods and services they will satisfy through purchases in the market place.

OVERVIEW

Most of the many wants of consuming units (households) for goods and services are satisfied through purchases in the market place. Since the money income of consuming units is limited, choices must be made as to which wants for goods and services will be satisfied.

The first generalization focuses on the major economic ideas that:

1. All wants for goods and services cannot be satisfied.
2. There is a need for choice-making.

At this point a distinction should be drawn between economic and noneconomic wants. First, economic wants are limited to those wants satisfied through the use of goods and services which are produced with scarce resources. Such goods as sunshine, air, and ocean water normally are not scarce goods and thus do not present an economizing problem. Second, many wants cannot be satisfied through the acquisition of scarce goods and services. Such wants are for nonmaterial things. They include the desire for friendship, a happy marriage, or religious satisfaction. Economists, as social scientists, are not concerned with how nonmaterial wants are satisfied.

The distinction between goods and services also must be made clear. Goods are tangible objects--such as toys, soap, and shoes--while services are productive acts which satisfy our wants but do not result in tangible objects. For example, a doctor, a dentist, a repairman, and a shoeshine boy all perform services. When we buy and use such goods or services, we act as consumers.

We know everybody has many wants which can be satisfied with goods and services, but in general what else can be said about them? First, as you look at all members in society you become aware of the great variety of wants that exist. It seems difficult, if not impossible, to conceive of listing all the wants of people. Among a host of other factors, age differences, sex differences, climatic differences, educational differences, and social differences help to account for the differences in people's wants. Second, most wants can be satisfied by a variety of goods or services. The desire for travel can be satisfied by different forms of transportation services: horse, bicycle, motorcycle, car, train, bus, boat, airplane, etc. Equally long lists of goods and services can be made which will satisfy our wants for food, clothing, shelter, and entertainment. Third, the list of people's wants for goods and

services seems to be an unending one, and it seems impossible to provide all the goods and services required to satisfy all of people's wants for them.

Ample evidence exists to quickly convince us that there are not enough goods and services to satisfy all the wants of everyone. The typical consuming unit (household) faces an almost immediate restraint when it attempts to satisfy its wants through the acquisition of goods and services. Families are limited by their money income, for only those goods and services can be obtained which can be paid for. Since money income is limited and since money prices must be paid to obtain goods and services, income and prices are restraining forces limiting the number and kinds of goods and services which can be acquired.

Because of income and price restraints, consuming units cannot satisfy all of their wants for goods and services. Since all wants cannot be satisfied and since wants vary in importance, families must choose which wants will be satisfied. The particular choices made will be determined in large part by the size of the family income, the prices of different goods or services, and the ability of different goods or services to satisfy the wants.

Wise choice-making is necessary in order to obtain the most satisfaction possible from the purchase of goods and services. The opportunity cost of goods and services purchased is not their money price but the other goods and services which could have been purchased with the limited money income. Choices must be made in order to purchase those goods and services which provide the consuming unit with the most satisfaction in relation to the amount of money income spent for them.

Economic Generalization I

Because of limited income, consuming units must choose which of their many wants for goods and services they will satisfy through purchases in the market place.

TEACHING GUIDE
Kindergarten

Economic Vocabulary

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair, and babysitting.

Consuming unit - a person or group (household) which uses goods or services.

Economic goods - goods which can be obtained only at a cost. Examples are shirts, candy bars, and houses.

Free good - a good which can be obtained without cost. Examples of free goods are air and sunshine.

Household income - the total of the money payments received by household members primarily for the performance of services or for the production of goods.

Money - anything which is generally acceptable in exchange for goods and services. The money supply includes checking accounts, coins, and paper bills.

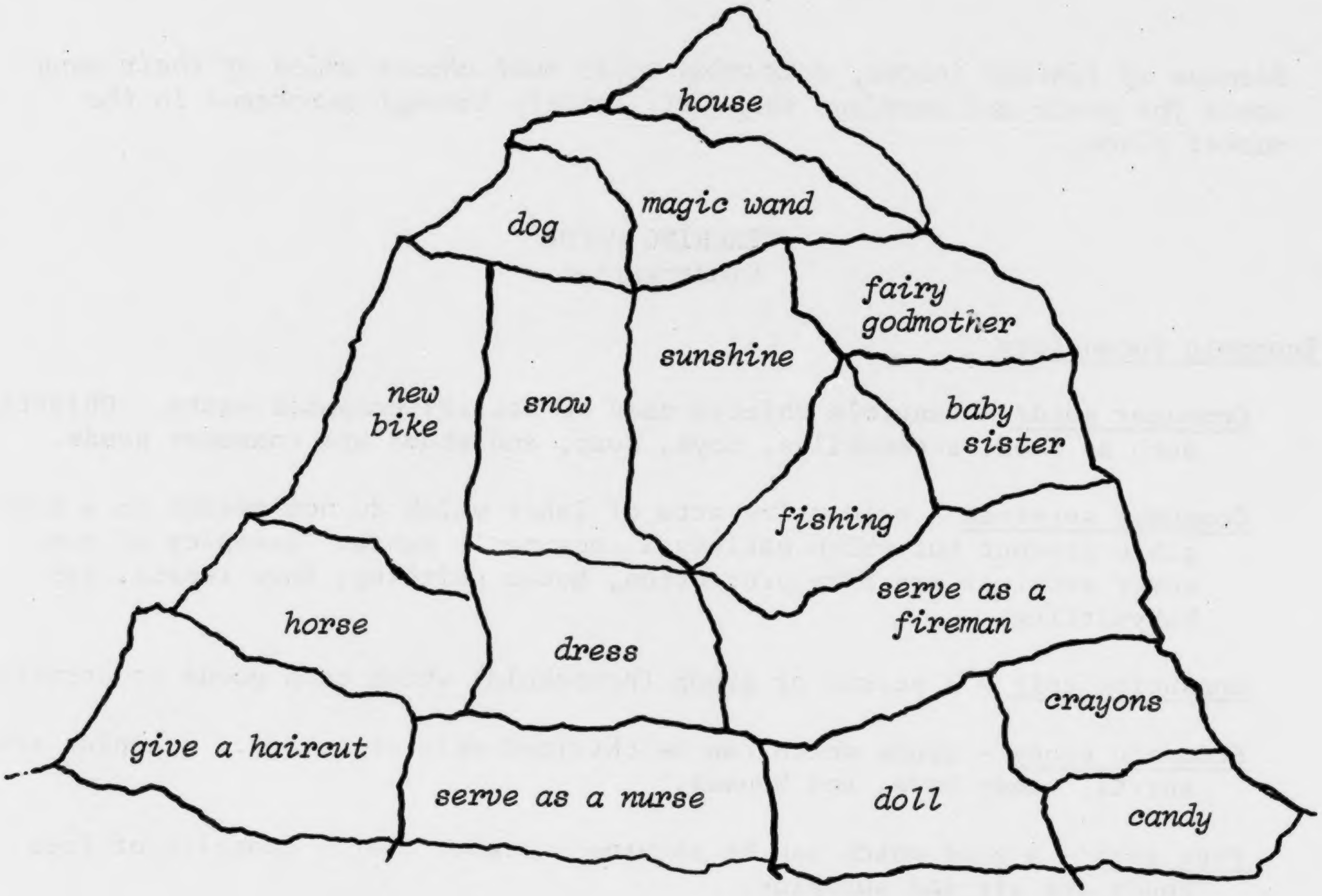
Price - the value of a good or service in money terms.

Economic Concepts

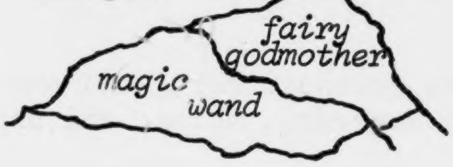
1. People have many wants, some of which may be satisfied through the use of free goods, while the satisfaction of other wants requires the use of economic goods or services.

   The basic point here is that people have a great number and variety of wants. Distinctions must be made between noneconomic wants and economic wants which can be satisfied by goods or services produced in the home or purchased from businesses. Air, sunshine, rain, and snow are free, or noneconomic, goods; while chairs, pencils, milk delivery, and police protection are economic goods and services. The distinction between economic goods and economic services can also be made.

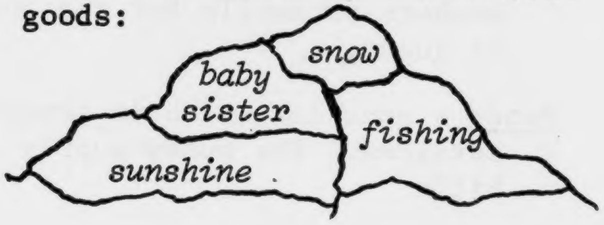
MOUNTAIN OF WISHES


house
dog
magic wand
fairy godmother
new bike
snow
sunshine
baby sister
fishing
horse
dress
serve as a fireman
crayons
give a haircut
serve as a nurse
doll
candy

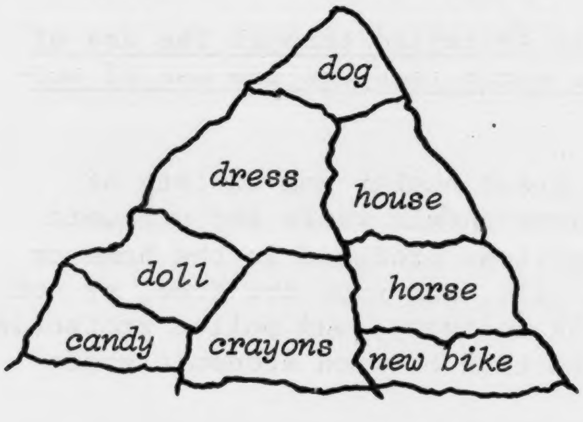
Wishes for nonexistent things:


fairy godmother
magic wand

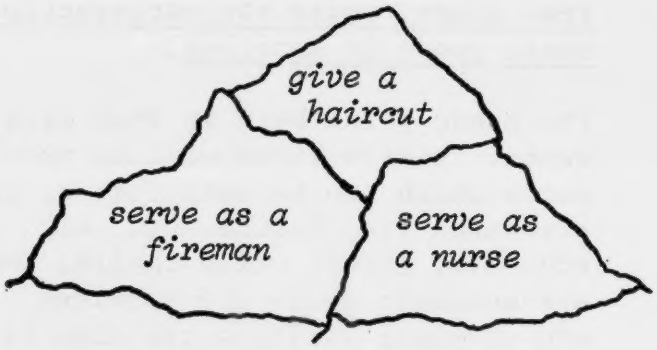
Wishes satisfied by noneconomic goods:


snow
baby sister
fishing
sunshine

Wishes for economic GOODS:


dog
dress
house
doll
horse
candy
crayons
new bike

Wishes for economic SERVICES:


give a haircut
serve as a fireman
serve as a nurse

Suggested Activity: Build a bulletin board entitled "Mountain of Wishes," as illustrated on the opposite page.* Have each child draw six rocks (or teacher can provide the "rocks") and put a wish on each rock. (The children can draw or cut and paste pictures from magazines.) All together, the rocks should make quite an impressive mountain, illustrating that "people have a great number and variety of wants." The wishes will probably include some for noneconomic goods as well as for economic goods and services. (Children also may wish for nonexistent things.) These distinctions can be made through discussion or by building new mountains of noneconomic goods and of economic goods and economic services. If the rocks are not permanently attached to the bulletin board, they can be used as a sorting game. This exercise could be entitled "Everybody wants many things."

2. Because consuming units have a limited money income and because goods and services have price tags, consuming units cannot satisfy all of their wants for goods and services.

The relationship between the money income of consuming units and their purchases of goods and services is important here. Consuming units satisfy most wants for goods and services by purchasing them from businesses. These purchases require the payment of money prices to businesses. Such payment uses up the limited money income of consuming units, leaving less for further purchases of goods and services.

Suggested Activity: The mountain of wishes can be used here as well. Price tags can be put on at least some of the rocks representing items which children would like to purchase. To make the prices manageable for the children, they should be kept between $1 and $10, in whole dollar amounts. The children themselves may enjoy determining the prices. A store can be established with either children or teacher as storekeeper. Give each child two, three, or four play dollar bills to "spend" at the store. If the prices and the child's income are established correctly, the child will not be able to purchase everything he wants or may not be able to buy a particular item he wants if the price of that item is greater than his total "income." Pertinent questions would be:

Why can't you buy everything you want? (limited money income)

If prices were lower, what would happen? (could purchase more goods and services with your limited income)

If you had more money income, what could you do? (purchase more goods and services)

This exercise could be called "My income won't buy everything I want."

3. Because the income of consuming units is too limited to purchase all the goods and services wanted, consuming units must choose which of their wants for goods and services they will satisfy.

---

*If you feel that the use of the word "wishes" may lead the children into excessive fantasy, the bulletin board could just as easily be called a "Mountain of Wants."

The importance of choice-making should be made clear at this point. Consuming units want many goods and services. But money prices must be paid for them, and the limited money income of consuming units is insufficient to purchase all the goods and services wanted. Since all wants cannot be satisfied and since some wants are more important than others, consuming units must choose which wants they will satisfy and purchase those goods and services they want the most.

Suggested Activity: Using the following poem, "Henry's Nickel," a mountain of wishes can be built for Henry. See illustration on page 9.

"Henry's Nickel"*

by Michael Feeney

Henry's mother gave him a nickel to buy a treat.
He took it to the corner store that was just across the street.

The shelves were stacked with sugar stars,
With lemon drops and chocolate bars.

The shelves were piled with many things that Henry wished to buy.
He looked and thought and frowned a bit and gave a little sigh.

There were so many many things that Henry liked to eat.
There were so many many things and all of them were sweet.

And then he saw the toy shelf, a yo-yo and a ball,
A cap gun and a puzzle he wished to buy them all.

But with one shiny nickel he knew he'd get just one,
So Henry made his mind up as you or I'd have done

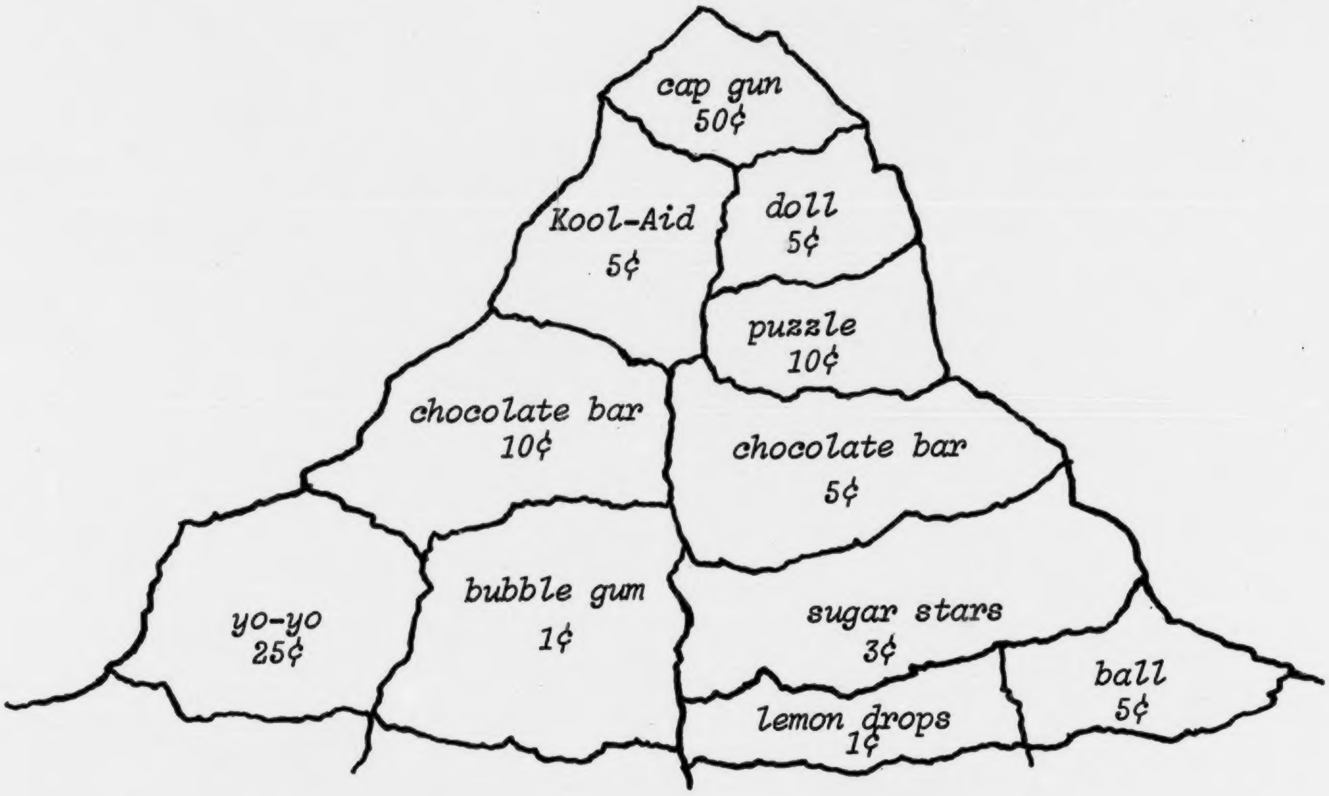
And bought the thing he thought was best,
One thing he liked more than the rest.

I don't remember what it was, I really must confess.
But if you know what you'd have done, perhaps you just might guess.

---

*Louis Bruno. Economic Education, Washington Schools. Prepared in cooperation with Northwest Council for economic education under the supervision of the Office of the State Superintendent of Public Instruction. (Olympia, Washington: July, 1966), p. 10.

HENRY'S MOUNTAIN OF WISHES


cap gun
50¢
Kool-Aid
5¢
doll
5¢
puzzle
10¢
chocolate bar
10¢
chocolate bar
5¢
yo-yo
25¢
bubble gum
1¢
sugar stars
3¢
ball
5¢
lemon drops
1¢

By attaching our prices to each item and knowing Henry's income, we can discuss the following questions:

What goods did Henry want? (lines 5-10)

Why couldn't Henry buy everything he saw? (lines 1 and 11)

Do you think Henry bought a doll? How about a cap gun? Why or why not?

What could Henry buy? (anything that cost 5¢ or less)

What do you think he bought?

Economic Generalization II

Scarce resources are required for the production of goods and services.

OVERVIEW

This generalization focuses on the major economic idea that before goods and services can be consumed they must be produced, and their production requires the use of scarce and versatile productive resources. The two key terms here are scarcity and versatility of productive resources.

We began with the understanding from Generalization I that because of limited income and prices of consumer goods, consumers cannot satisfy every want; therefore, consumers need to make decisions concerning which goods and services to purchase. Before consumers can purchase any of these goods and services, however, they must be produced.

Basically, the production of goods and services involves the use of scarce productive resources such as labor, buildings, natural resources, tools, machinery, and management. For example, even in the case of the "little red schoolhouse," the production of educational services requires the use of managers (school board and administrators), labor (teachers, custodians, etc.), natural resources (paper, pencils, crayons, chalk, etc.), and capital goods (buildings, blackboards, desks, furnace, etc.).

What exactly is meant by scarce productive resources? The idea of scarcity means that there are not enough productive resources (natural resources, capital goods, labor, and managerial knowhow) to produce all the goods and services wanted by consumers. Therefore, just as choices have to be made concerning which goods and services you as a consumer will purchase for consumption (because not all of your wants can be satisfied), choices must be made as to which goods and services will be produced with the limited resources. Obviously, there are not enough productive resources to produce all the goods and services everyone wants.

Resources are versatile as well as scarce. That is, most resources can be used in the production of more than one good or service, and most goods or services can be produced with different combinations of resources. For instance, assuming the requisite skills or the ability and willingness to acquire them, the labor services of a woman or man may be utilized as an elevator operator, teacher, writer, factory worker, etc. Again, the important point is that labor services are scarce and if they are utilized in the production of one good or service, they are not available for the production of alternative goods and services. Much the same case exists for other scarce productive factors. For instance, land may be used as a building site, for growing corn or other crops, or for a playground. These are but a few examples of how a given productive resource may be used in the production of a variety of goods and services.

It is also important to realize that most goods or services can be produced with different combinations of productive resources. The production of a given amount of corn involves the use of land, labor, and capital; but this amount of corn may be produced with either a lot of labor, a little capital, and land--or a little labor, a lot of capital, and land. As is true of corn, many goods may be produced with different proportions of land, labor, and capital.

Since there are not enough productive resources available to produce all the goods and services wanted by everyone (scarcity) and since most productive resources can be utilized in the production of many different goods and in different proportions (versatility), wise choices or decisions must be made concerning what goods and services will be produced and how resources will be used in their production. For whenever a resource is committed to the production of a particular good, we should realize that other goods which could have been produced with this resource must be forgone. This is an illustration of the opportunity cost of using resources to produce a particular good.

Most of us would agree that land, labor, capital, and managerial knowhow should be combined so as to produce the greatest quantity of goods and services which will best satisfy both the individual and collective wants of consuming units. Resource misuse or waste occurs when a given resource is used to produce a good which is of less importance than other goods which could have been produced with this resource. Misuse or waste of resources also occurs when a given good is produced with resource combinations which involve the use of relatively more scarce and valuable resources rather than the use of relatively more abundant and less valuable resources.

Economic Generalization II

Scarce resources are required for the production of goods and services.

TEACHING GUIDE
Kindergarten

Economic Vocabulary

Business (firm) - an organization engaged in the buying and hiring of resources and the production and sale of goods and services.

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair, and babysitting.

Consuming unit - a person or group (household) which uses goods or services.

Household income - the total of the money payments received by household members primarily for the performance of services or for the production of goods.

Producer - a person who does useful work in making goods or performing services.

Production - the process of combining productive resources in order to make goods and services.

Productive resources (factors) - land, including natural resources, labor, and capital (tools, equipment, buildings, and materials) which are necessary for the production of goods and services.

Scarcity - the condition resulting from the fact that people's wants for goods and services exceed the capacity of resources to produce them.

Economic Concepts

1. Use of scarce productive resources is required to satisfy people's wants for goods and services.

The main point to be stressed is that goods and services must be produced before they are consumed. Production involves the use of productive factors--land, labor, and capital. Furthermore, the supply of productive factors is insufficient to produce all the goods and services wanted by consuming units. That is, productive factors are limited or scarce.

Suggested Activity: A Kool-Aid party can illustrate to the children the need for production and for the use of scarce resources and can allow enjoyment of the final product as well. Have children list everything necessary for the production of Kool-Aid: Kool-Aid mix, sugar, water, pitcher, spoon, measuring cup, paper cups, table, tray, and labor. These resources can be classified on a picture chart, identifying land, labor, and capital.

LAND (includes natural resources)	water* (free)
LABOR	people to measure, mix, pour, and distribute (50¢)
CAPITAL (tools, materials, and supplies)	Kool-Aid mix--20¢ (4 pkg.) sugar--30¢ (2 lb.) spoon--30¢ pitcher--60¢ measuring cup--25¢ paper cups--64¢ (2¢ each) table tray

By putting prices on each item, the teacher can help the children to see the money cost of producing Kool-Aid for the whole class. (The cost would be about $2.50 to $3.00 for 32 people if all supplies were purchased. But with borrowed tools, this activity could be carried out for about $1.10 for Kool-Aid, sugar, and paper cups.) After collecting (buying or borrowing) the necessary ingredients, the teacher can point out the limited nature of these ingredients (assume we do not have money to buy any more).

> What would happen if we spilled the Kool-Aid mix? if we spilled the sugar? What if we broke the pitcher? (we would not have enough resources to produce the Kool-Aid)

The children should understand that there is no Kool-Aid for them to drink until the resources (land, labor, tools, and materials) are combined. The Kool-Aid must be produced before it can be consumed. People who make economically useful goods or perform economically useful services are producers. Is everyone a producer? Take the example of the class: Most of the children are going to watch while a few make and distribute the Kool-Aid.

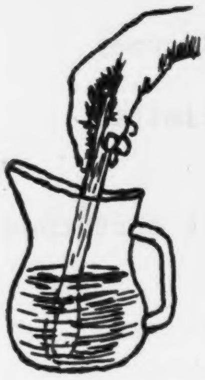
With the help of a simple drawing, we see examples of children producing a good (Kool-Aid) or performing a service, while some children are not involved in the production of a good or the performance of a service. (See illustrations on following page.)

---

*Water itself is a gift of nature or a free good. By the time it comes out of a faucet, however, machinery and labor are embodied in it through treatment and delivery processes and so it is no longer "free."

PRODUCERS

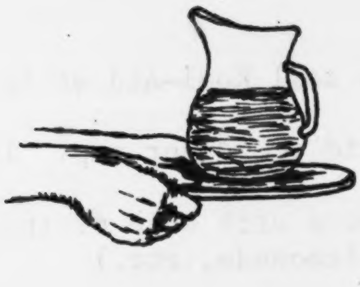
Producing a GOOD



Making Kool-Aid

PRODUCERS

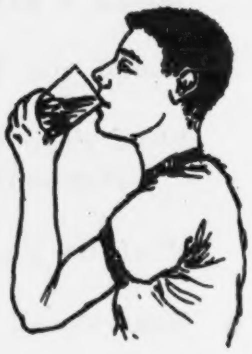
Performing a SERVICE



Distributing Kool-Aid

CONSUMERS

Consuming a GOOD



Drinking Kool-Aid

A few questions may help to re-emphasize important points:

Before we can consume the Kool-Aid, what must be done? (it must be produced)

What must be used to produce Kool-Aid? (land, labor, capital)

Why do we produce Kool-Aid? (because consumers want it)

What if children want more Kool-Aid than we have? (we must use additional resources to produce more)

What if nobody wanted Kool-Aid? Would all the resources have been wasted? (yes)

2. Since productive resources are scarce, choices must be made as to which goods and services will be produced.

Just as consuming units must decide which goods and services to buy with their limited money income, businesses must also make choices in their use of scarce productive resources. Since the money income of businesses is limited, they must make wise choices as to which goods and services to produce and which limited productive factors to use to produce them. Businesses usually produce those goods and services which consuming units are most willing to purchase.

Suggested Activity: Have the children sell the Kool-Aid for 1¢ per cup. Compare their returns with the amount spent to produce the Kool-Aid. Discussion can center on the fact that since the paper cups cost 2¢ each, selling the Kool-Aid for 1¢ does not even cover the cost of the cup.

What do children receive when they sell Kool-Aid? (money income)

What costs are involved in producing Kool-Aid? (costs of limited resources--land, labor, and capital)

Would producers want to sell their Kool-Aid for less than it cost them to produce it? (no)

Would a producer want to sell Kool-Aid at 5¢ per cup? 10¢?

Would you buy the Kool-Aid at 5¢ per cup? 10¢?

What else could you produce with some of these same ingredients? (Kool-Aid popsicles, lemonade, etc.)

What do you think consuming units would want to buy most?

What would you produce?

APPENDIX A
Kindergarten

Specialization: *Specialization and the division of labor increase the quantity of goods and services that can be produced with a given amount of resources.*

This appendix focuses on the division of labor and its effect on the amount of goods which can be produced.

We have learned in previous generalizations that productive resources are necessary for producing goods and services, that they are limited, and that they may be used in various ways. Therefore, it is important that we use these resources in the most efficient manner. At the same time it is possible to discover new resources and to find new, more efficient ways of using existing resources. One important productive resource is human labor. We shall see how specialization and the division of labor enable this human labor to be used most efficiently to produce a greater quantity of goods and services.

Each person has different interests, abilities, and knowledge. The division of labor takes advantage of the special qualifications of an individual. That is, a person works in an area or does a job which best suits his interest and abilities. One of the easiest ways to see how the division of labor works is to examine the average family household. Each member of a family usually has certain tasks which he performs for the benefit of the whole household. Father's job may be to mow the lawn; mother's, to cook the meals; and sister's, to make the beds. If there were no division of the work, each member would--among other things--have to cook his own meals, make his own bed, and wash his own dishes. It is easy to see, then, how dividing these jobs among the various members of the family affords a more efficient way of performing tasks within the home.

Businesses that produce goods and services also specialize and make even more use of the division of labor. They usually produce a specific good or a limited number of goods and leave the production of other goods and services to other businesses. This in itself is specialization. In addition, they divide the different tasks performed in the production of these few goods among various workers. That is, instead of each man producing a complete product, each man works on one specific part of a product. For instance, in a shoe factory one man may be responsible for putting heels on shoes, one for cutting the leather, and another for sewing the parts together. Rather than each man in the factory making a whole pair of shoes, each man performs a part of the job. As a result, more shoes are produced.

Why? One man may be efficient and fast at one part of the job and another at a different part. By having each man perform the task at which he is fastest and best, more higher quality shoes may be produced than if each man had to

perform every task involved. In addition, when the tasks involved in the production of a good are divided among several workers, those workers become faster and more efficient by continually performing that specific task. An automobile factory is a more obvious example. Here there are engines to be made and assembled, seats to be upholstered, and cars to be painted, as well as many other jobs. It is not likely that one person would be extremely efficient at all of these tasks, but by dividing the tasks among many people, cars can be produced more efficiently.

What do we gain, as a society, from the division of labor and specialization? First of all, through specialization and the division of labor we are able to produce more goods of higher quality. This results from the most efficient use of human labor. Each person performs a task he is trained for and is able to do both quickly and efficiently. Instead of a good produced entirely by one person, we have a good which is produced by several persons--each doing a specific part in the production, with each person more proficient than the others at the specific task he performs. These various people working together can produce more goods, better goods, and produce them faster than if each man produced the entire good by himself.

Another important result of specialization and the division of labor is the greater dependence of one person on others. The family which produces a limited number of the goods and services it desires depends upon businesses and other persons working outside the home to produce those goods and services which it does not produce itself, but which must be purchased from businesses.

Since specialization also occurs in the business world, dependence arises within and among businesses. With different workers within a factory performing different tasks, the amount of final goods and services produced depends upon the coordination of the efforts of all the workers. Because different businesses produce different goods or types of goods, the total amount produced is influenced by the coordination among businesses.

Economic Vocabulary

Division of labor - the separation of production into various tasks performed by different workers, allowing specialization and the development and use of higher and more productive human skill.

Efficiency - producing a maximum amount of goods and services with a given amount of resources or producing a given amount of goods and services with a minimum amount of resources.

Specialization - the concentration of effort on a particular aspect of production (job or product) permitting persons and regions to use to best advantage any peculiar differences in skill and resources.

Application to Kindergarten

Since productive resources are scarce, it is important to produce goods and services in the most efficient way possible. One way of producing more efficiently is by specialization. This is illustrated in the Kool-Aid activity. Certain children performed certain tasks, that is, maybe two or three would measure the ingredients, another would mix the Kool-Aid, while four or five others would serve it to the rest of the children. If everyone in the class attempted to produce his own, much more labor, space, equipment, and materials would be required. Not only would this be an inefficient use of resources, but very probably it would turn into a minor disaster. Evidence of specialization can also be found by reading labels on the different ingedients used to make Kool-Aid. One company processed the sugar, another produced the Kool-Aid, and still a different company produced the cups. Hence, it can be readily observed that examples of specialization are all around us, even in our classroom.

To help the children understand specialization, the teacher may ask the following questions:

What specialized tasks do the children perform in the production of the Kool-Aid? (measure the ingedients, mix the Kool-Aid, and serve the Kool-Aid)

Have the children discuss what would happen if everyone attempted to make his own Kool-Aid. What would happen if only one person tried to make and distribute all the Kool-Aid? (it would take much longer)

Ask some of the children if they think they could do a better job of making the Kool-Aid than distributing it. Do any of them think they could distribute it better? Should the children be assigned to the job they can do best? (yes, they will be more efficient) Would they be able to do a job better if they did it over and over? (yes)

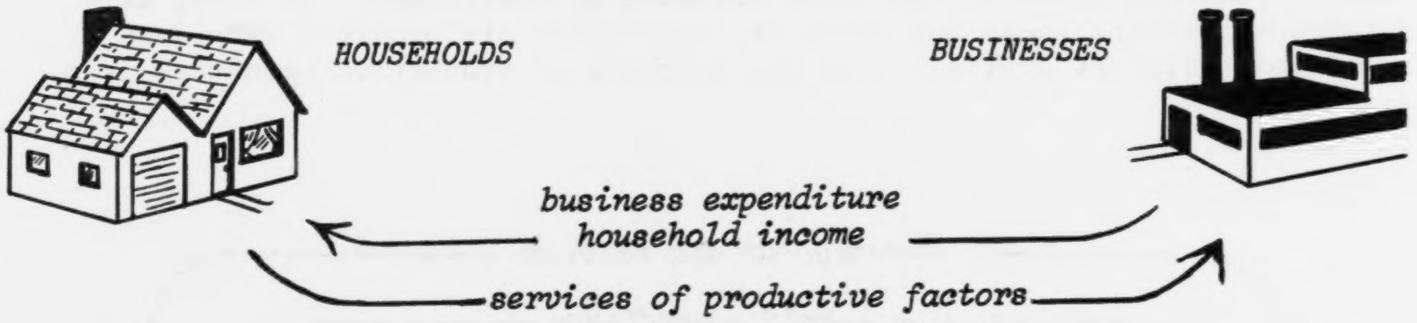
Since the children specialize in making Kool-Aid, could they also specialize in making other goods such as lemonade? (yes, if they do specialize, they will probably produce it more efficiently)

Economic Generalization III

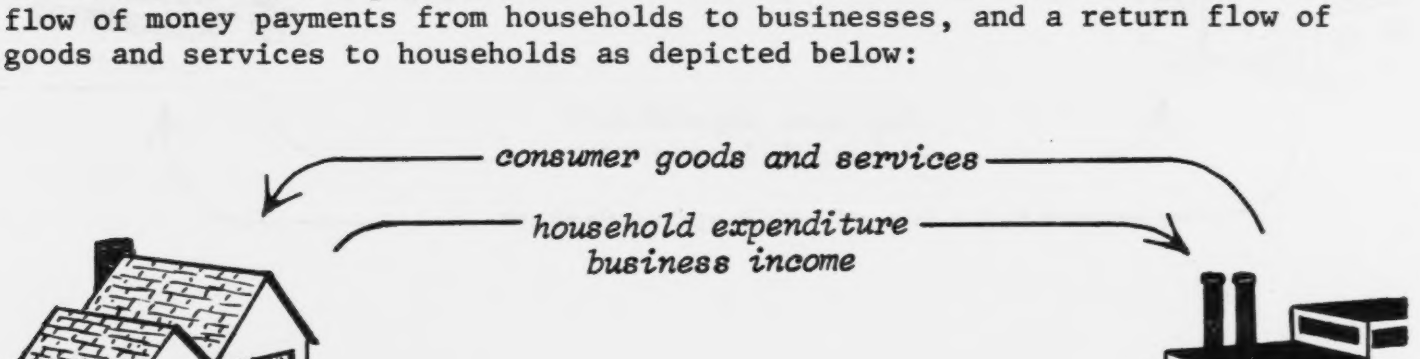
Households earn money income by selling the services of their productive resources to businesses and, in turn, use household income to purchase goods and services from businesses.

OVERVIEW

Business organizations are responsible for producing most goods and services desired by households. As has been noted, the production of goods and services requires the use of scarce productive factors. If businesses are to produce goods and services, they must have some means to obtain the services of productive factors. In the United States, most productive factors are privately owned by households and if businesses are to command their services, they must offer households a reward. Businesses do offer rewards in the form of prices paid to households for the use of their productive factors. In turn, the prices paid for productive services become the major source of household income. These relationships can be seen below:


HOUSEHOLDS
BUSINESSES
business expenditure
household income
services of productive factors

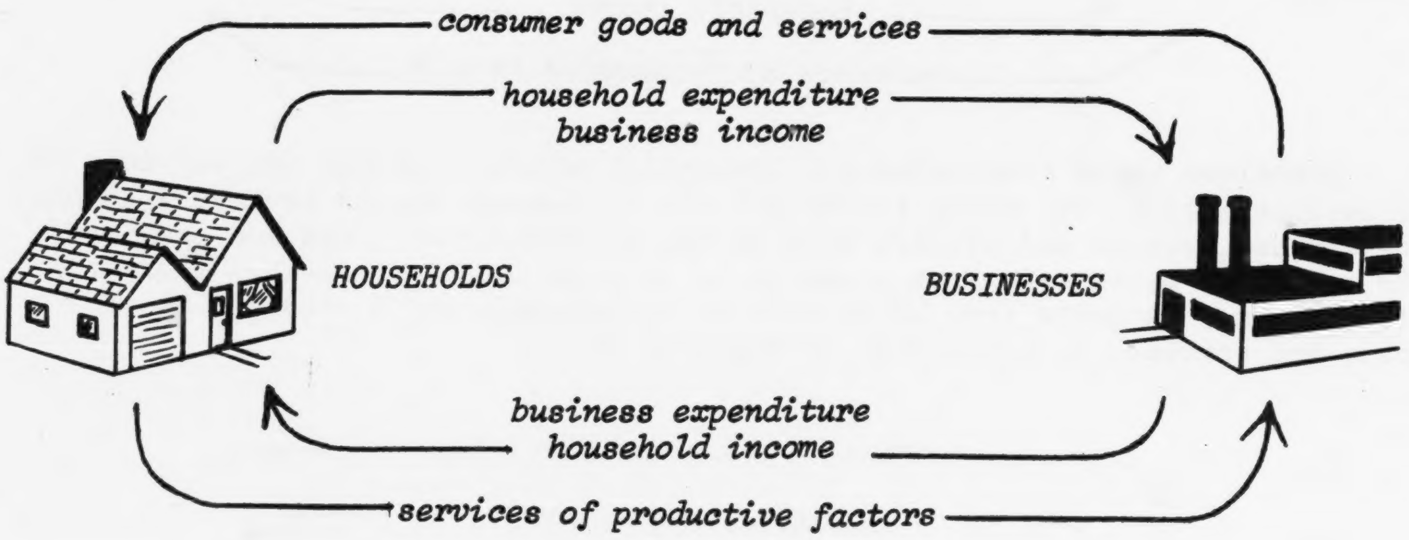
Questions arise concerning why households should exchange the services of productive factors for money income and why businesses should pay money income to purchase factors and utilize them in the production of goods and services. The answer to these questions leads us to an examination of another flow--the flow of money payments from households to businesses, and a return flow of goods and services to households as depicted below:


consumer goods and services
household expenditure
business income
HOUSEHOLDS
BUSINESSES

Households are willing to sell the services of their productive factors to businesses for money income since this money income can be used to buy goods and services desired by households. Fundamentally, households accept money income in exchange for their productive services because they know this money income can be exchanged for goods and services.

Business owners are willing to hire productive factors and use them to produce goods and services for sale to households because, by doing this, owners of businesses expect to earn income for their own household. If businessmen are to be successful in achieving this end, they must use the resources to produce those products which can be sold to households for a price which will cover payments made to the factor owners as well as to provide a reasonable return to the businessman for his time, effort, and risk involved in organizing and operating the business.

The circular flow diagram (below) depicting households and businesses presents a simplified picture of the operation of the United States economy. This diagram represents a beginning step in explaining the dual role of households as buyers of consumer goods and services from business organizations and as suppliers of the services of productive factors to businesses.* In this diagram, the services of productive factors may be viewed as flowing from households to business units in exchange for money income which enables households to purchase goods and services produced by businesses. In turn, as households purchase goods and services, businesses are provided with money income which becomes available for the purchase of productive resources from households.



---

*A more complex circular flow diagram also would include flows among businesses, between businesses and government, and between households and government.

Economic Generalization III

Households earn money income by selling the services of their productive resources to businesses and, in turn, use household income to purchase goods and services from businesses.

TEACHING GUIDE
Kindergarten

Economic Vocabulary

Business (firm) - an organization engaged in the buying and hiring of resources and the production and sale of goods and services.

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts which do not result in a tangible object but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair, and babysitting.

Consuming unit - a person or group (household) which uses goods or services.

Household income - the total of the money payments received by household members primarily for the performance of services or for the production of goods.

Income earning unit - a person or family which receives money payments for the performance of services or for the production of goods.

Money - anything which is generally acceptable in exchange for goods and services. Among other functions, money serves as a medium of exchange and as a standard of value. The money supply includes checking accounts, coins, and paper bills.

Price - the value of a good or service in money terms.

Productive resources (factors) - natural resources, labor, and tools and equipment that are used in the production of goods and services. In economic jargon, all natural resources are collectively called land; and the tools, equipment, buildings, etc., are called capital. The three--land, labor, and capital--are referred to as the factors of production, because all productive effort requires one or more of these factors.

Wages - money paid to a person in exchange for his labor services.

Economic Concepts

1. In economic terms, households may be viewed both as consuming units and as income earning units.

In the United States, most goods and services consumed in the home are purchased from businesses rather than produced within the home. Decisions as to which goods and services are purchased are left up to individual households, subject to certain governmental regulations and, of course, subject to income and price restraints.

Households must have money income to purchase goods and services from businesses. In the United States, most productive resources are privately owned by households, and it is through the sale of the services of these productive factors to businesses that households earn income.

Suggested Activity: The activity involving Kool-Aid might continue to be used in illustrating the above concept. Under the guidance of a teacher, have one of the children designated as owner of the business (producer). Furnish the student with the materials required to produce Kool-Aid and with play money which he will use to hire the services of labor. In turn, provide each laborer hired with a family (mother and children). The laborers hired should perform services and receive wages in payment. These wage payments should then be taken back to the family and designated as household income which is available for the purchase of goods and services. The teacher should have pictures of selected goods from which actual choices could be made.

The following questions will help to emphasize the important points:

What did the laborer receive while working for the owner of the Kool-Aid business? (wages)

What did these wage payments represent to the family? (household income)

Why was income important to the family? (enabled them to purchase needed goods and services)

If the worker lost his job, would he still receive wage payments? (no) What would happen to family income? (decrease) Would the family be able to buy as many goods and services? (no)

2. In economic terms, businesses may be viewed as buyers of the services of productive factors and as sellers of consumer goods to families.

In the United States, although based upon which goods and services consumers want, business firms decide which goods and services will be produced. Since scarce resources are required for the production of goods and services, businessmen also must decide which resources to employ. However, as noted above, most resources are privately owned by households; and to obtain them, businesses must be willing to purchase them from households. Thus, the purchase of the services of productive resources by business firms must be viewed as a business expenditure resulting in a flow of income from business to household.

Businesses are able to purchase productive factors from households with the income earned from the sale of consumer goods to households. Thus, one may conceive of a continuous flow of income from businesses to households in exchange for the services of productive factors and a continuous flow of income from households to businesses in exchange for consumer goods and services.

Suggested Activity: Continue to use a Kool-Aid business to illustrate the above concept. With the teacher's guidance, have the owner of the business note the various materials and labor required to produce Kool-Aid. The owner should note that the materials and services of labor must be purchased and involves an expenditure by the business. In turn, the owner of the business should note that expenditures by households for Kool-Aid provide his business with the income needed to buy resources required for the production of Kool-Aid.

The following questions will help to emphasize the important points:

Why would the business owner want to produce Kool-Aid? (in order to sell it to households and earn money income)

What must the business owner do to obtain resources needed to produce Kool-Aid? (he must purchase them from households)

What must the business owner have in order to purchase the services of productive factors? (money income)

What must households be willing to do if business owners are to be able to hire productive factors? (households must be willing to sell the services of their productive factors)

Economic Generalization IV

Some of people's wants for goods and services are satisfied through government.

OVERVIEW

This generalization focuses on the idea of wants best satisfied by government, why they are best satisfied by government, why members of a society pay taxes, and what they receive in return.*

We begin with a quick review. Families receive money income for the use of their productive resources (factors of production). These payments are in the form of wages and salaries, interest, rent, and profit. In addition to these payments, a family may receive gifts of money, borrow from a bank, or draw on past savings, thus enabling them to spend more on consumer goods than their current money income would allow.

A family may use its money income in three ways--for purchasing consumer goods and services, for saving, and for paying taxes. We also know that families have many wants, not all of which they can satisfy. They must make choices concerning which ones they will satisfy and which ones they will not. Some of a family's wants can be satisfied by goods and services produced in the home and some by using money income to purchase goods and services from businesses, but others are best satisfied by government. In this generalization we are concerned with those family wants best satisfied by government.

Why are some wants best satisfied by government? Certain services which are important to society--such as national defense or lighthouses--usually will not be provided by private businesses. Why? Businesses are only willing to provide those goods and services which can be sold for a price in the market place. While businesses could produce the lighthouse to warn ships of impending dangers--and all shipowners would benefit--how would the owner of the lighthouse be able to charge a price for this service? Even if shipowners are unwilling to pay for the service, once the lighthouse is in operation, it is impossible to prevent them from using this service. Thus, lighthouses usually are owned and operated by government.

Other goods and services best provided by government are available on the private market, can be made subject to price payments, and can be purchased by an individual. Why then are they best satisfied by government? Most members of society feel that all people should receive a minimum amount of certain

goods and services. Public education through high schools, certain health services such as school nurses, and community sanitation programs are examples. While these services may be purchased by individuals, not all persons would receive an education or adequate health services if they were not provided by the government. Some persons would not have enough money income to provide education or medical services for their children. Others, even though they have enough money, would not be willing to spend enough on education, health, and sanitation. (By "enough" is meant that level which most members of society consider minimal.) The point is that while most members of a society feel there are minimal educational, health, and sanitation standards which should be met by all people, not all people would meet these minimal standards if they were left as the responsibility of each individual.

---

*Taxes are used for other purposes and are important policy instruments but this point shall not be discussed here.

What are some of the wants best satisfied by government? Fire and police protection represent wants that an individual family would find very difficult to fullfill. Many families can use the same fire station and firemen for fire protection and the same police force for police protection. Therefore, it is not efficient for a family to provide its own private twenty-four-hour police and fire protection. A family seldom experiences a house fire large enough to merit a call to the fire station. If a large fire should occur, however, a family would want and need immediately the services of experienced firemen and a fire engine. If fire and police protection are provided by government, all families receive the same protection. They may call upon the police or upon firemen for protection at any time of night or day.

There are other wants which can be satisifed efficiently by an individual family but because of other reasons are best satisfied by government. One such want is that for education. Most families feel that education is important and that every child should be able to go to school. When schools are built and education is provided by government, every child has an equal opportunity to obtain an education through the high school level. If education were available on a private basis only, many children would be unable to obtain a high school education either because their parents would not have the money to send them or because their parents would not be willing to spend as much money on education as would be required. Therefore, if the members of a society feel it would be in their best interest to provide all children with an education, the best way to achieve this is through public education.

How does the government provide these various services to families? Goods and services provided by government are not free. Families pay for these services by paying their taxes. These taxes constitute a form of income to the government. The government then uses this tax money to pay for the goods and services it provides to members of society. The tax money the government spends goes mainly for the purchase of goods and services made available to members of the community as a whole. More specifically, it goes to the workers who provide those services, for purchasing the goods used by all people, and for payments to families unable to earn enough income to purchase minimum amounts of food, clothing, and shelter.

Those goods and services provided by government must be produced just as any good or service must be produced; this requires the use of productive resources. The government may do one of two things: 1) it may either purchase

goods and services from private businesses (the government usually hires private businesses to build post offices, schools, city halls, dams, highways, and other public facilities); or 2) it may produce the goods and services itself (government hires labor to provide many services, including those of teachers, policemen, firemen, postal workers, and many others). If it purchases them from private businesses, money income flows from the government to the private businessman in the form of price payments. If the government produces its own goods and services, money income still flows into the private sector but in a different form. In this case, money income goes directly to the workers employed in the production of the goods and services and to the owners of the capital and raw materials used in that production.

How do families decide exactly: 1) what goods and services will be provided by government, 2) how many goods and services will be provided by government, and 3) how much of their income will be paid to the government in the form of taxes? In addition, how are families assured of the availability of these goods and services? The answers lie in voting and in electing representatives. The members of a community elect representatives to make the actual decisions discussed above. These representatives or government officials voice the ideas and wants of the people who elected them, and in this way the members of society are represented in government. Some examples of elected representatives are mayors on the local level, governors on the state level. and Congressmen and the President on the federal level.

Next, we present the idea of opportunity cost associated with public goods or services provided by government. The taxes a family pays reduce the amount of family income available for the direct purchase of goods and services and/or saving by the amount of the taxes paid. This tax money collected by the government is then used to satisfy wants such as fire protection, police protection, public education, and national defense. The economic cost or opportunity cost of taxes is the alternative goods and services which could have been purchased or produced. That is, the opportunity cost of the taxes paid by members of society is the alternative goods and services which could have been purchased with that money had it not been paid to the government in the form of taxes.

Given scarce resources, the opportunity cost of governmental goods and services is the other goods and services which could have been produced with those resources. To the extent that additional resources are allocated to the public sector, more public goods and services will be available. However, relatively fewer resources will be available to the private sector, and relatively fewer private goods and services will be produced. Of course, the opposite conclusions would hold true if relatively more resources were allocated to the private sector rather than to the public sector.

The opportunity cost principle also operates within the public sector as well as between the public and private sectors. Assuming a fixed amount of resources available for the public sector, then the opportunity cost of a particular batch of public goods is the other public goods and services which could be produced with the given resources.

Economic Generalization IV

Some of people's wants for goods and services are satisfied through government.

TEACHING GUIDE
Kindergarten

Economic Vocabulary

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair, and babysitting.

Government income - the money income received by government which is generally in the form of taxes paid by households and businesses.

Money - anything which is generally acceptable in exchange for goods and services. Among other functions, money serves as a medium of exchange and as a standard of value. The money supply includes checking accounts, coins, and paper bills.

Taxes - involuntary payments of money from individuals and businesses to government.

Wages - money paid to a person in exchange for his labor services.

Economic Concepts

1. Government provides important services wanted by most families.

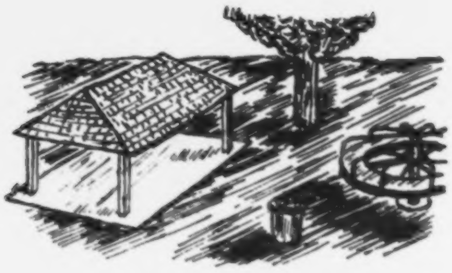
We want to acquaint the children with some of the goods and services provided by government in the community around them--but particularly those related to the school. Although most of these are probably familiar to them, we want them to realize that they are provided by the government for everyone.

Suggested Activity: Play a "Goods and services we receive from our government" game. As the children respond to the question, "What goods and services are provided by government?" depict each good or service on the blackboard with simple sketches. See illustration on page 31.

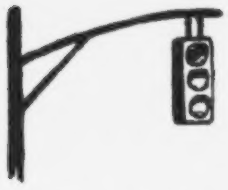
administrative personnel

roads

equipment and supplies



parks

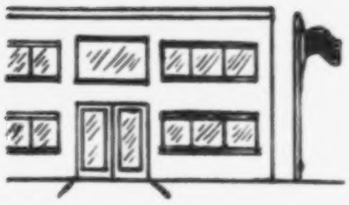


signal lights

firemen and fire trucks

policemen and police cars

maintenance personnel



schools

teachers

To make the game more meaningful, the teacher should ask questions such as the following:

Why doesn't each family provide its own fire protection? Would it be too expensive? (yes) Who benefits from the city's fire department? (everyone in the city)

Why doesn't each family provide education for its own children? (too expensive) Could each family provide all the equipment and material found in your school? (probably not)

Why do people want to serve as policemen, firemen, or teachers? (to earn money income) Who pays them their wages or salaries? (government) Where does the government get the money income needed to pay them? (taxes from households) Does your family pay taxes to government? (yes) What does your family receive from government? (many goods and services--have children name some)

Economic Generalization V

Households may save part of their money income.

OVERVIEW

This generalization focuses on the concept of saving--why we save and how saving affects our consumption of goods and services. Until this time we have assumed that a household uses its money income for two purposes--paying taxes and purchasing consumer goods and services. With the introduction of saving we have several ways to use this income. We can pay taxes, purchase goods and services, and save.* Let us review what we mean by household money income. The money income a household receives consists of payments--wages and salaries, rent, interest, or profit--for the services of the factors of production.

First we must define saving and then ask what saving implies about our consumption of goods and services. Saving is that part of current money income remaining after taxes have been paid and after goods and services have been purchased. When a family saves part of its income, it is forgoing present consumption for future consumption. That is, it purchases fewer goods and services now, thus increasing its ability to purchase goods and services in the future. Why do families do this?

There are several reasons for saving. A family may wish to save now so it can satisfy important wants in the future. One example would be saving for a vacation next year. A longer range example is saving for retirement, old age, or for the purpose of leaving an inheritance to your family. Another example is saving so that unexpected needs for money can be met in the future, such as medical expenses resulting from an unforseen illness or accident.

It is interesting to look at the connection between the sources of money income and the ways in which money income is used. We have seen in past generalizations how families receive income by selling their productive services and how their income consists of wages and salaries, interest, rent, profit, and transfer payments. Just as the form in which we receive income is determined mainly by the type of productive service we sell, what we do with our income determines where it flows. After the government has received our tax payments, that part of income spent on present consumption flows to business through the purchase of goods and services, and the remainder--saving--is reserved for future consumption.

An important decision to be made when we consider saving as an alternative to consumption is what part of our income we will save. A family receives a

certain limited money income. The first thing it usually does is pay taxes. After taxes have been paid there is a certain amount left over which may be used for purchasing consumer goods and services now or saved and used at some later date. We know a consumer's wants are unlimited and that he must make decisions as to which goods and services he will purchase with this limited income.

---

*Households also can use part of their money income to make voluntary contributions--for example, to churches, Red Cross, cancer fund, Boy Scouts.

When saving is considered as an additional way to use income, another decision is required. This decision concerns what part of a family's income should be spent now and what part saved and spent at some future time. Since we have examined already some of the reasons for saving, we can see why people will postpone present consumption for the purpose of a higher level of future consumption.

We can now ask: What happens to that part of our income which we do not spend (which we save)? First of all, there are many forms in which we may hold our savings. We may keep it in a safe place at home, we may put it in a bank, or we may purchase stocks and bonds.

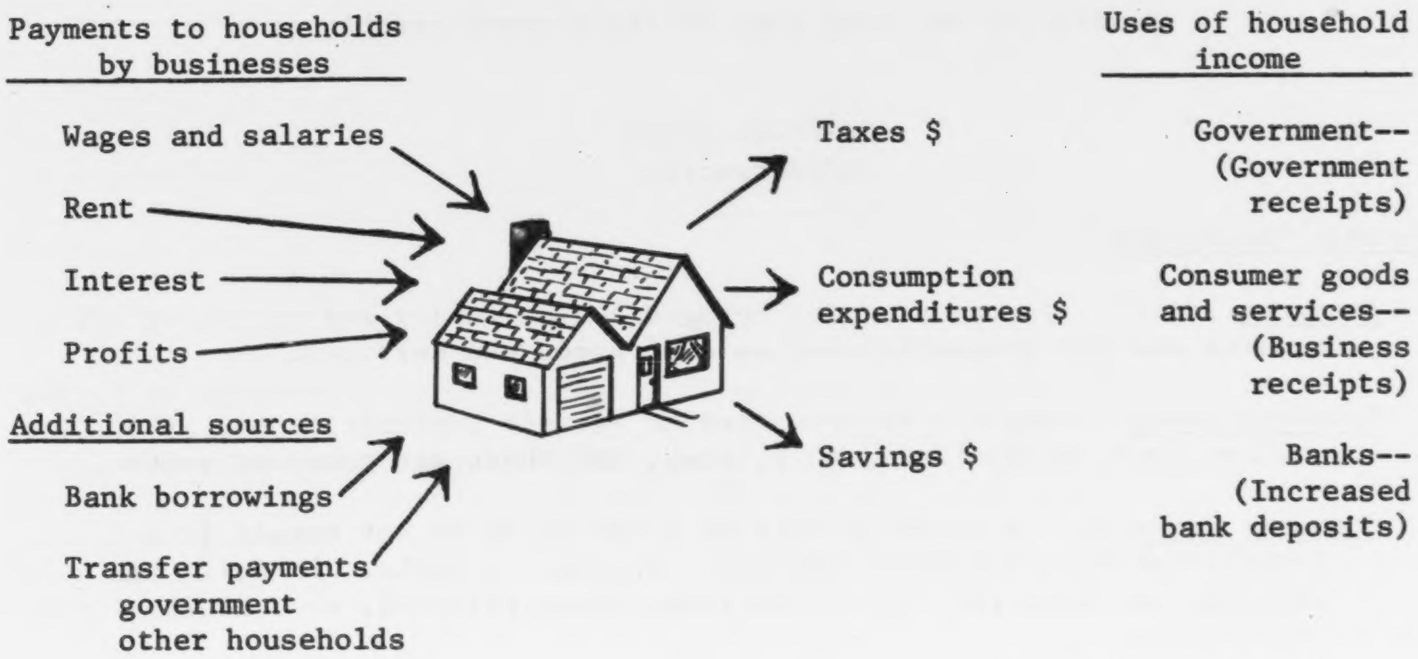
Interest payments were mentioned earlier as a reward for saving. If we keep our money at home, we do not receive interest payments. If savings are kept in the bank, however, we receive interest payments in exchange for the use of our money. The bank uses our money and acts as a financial intermediary. It takes the money which people deposit as savings and makes loans to families or businesses whose present needs for goods and services exceed the money they have to purchase them.

The bank may lend money to a businessman to buy a machine required for the production of goods. The bank also may help your family by loaning them money to buy a house or a car. Whenever a family or business borrows money from a bank, it agrees to repay the money at some designated time.

We have seen that when a family saves part of its income, it reduces current consumption in favor of increased future consumption. On the other hand, borrowing money from the bank has the opposite effect on consumption. If a family borrows money from the bank to buy a car, it increases current consumption at the cost of future consumption because in the future the money borrowed from the bank will have to be repaid. So, saving increases future consumption at the cost of present consumption; borrowing increases present consumption at the cost of future consumption.

In summary, a household receives money income in the form of wages and salaries, rent, interest, and profit. These payments for the services of the factors of production are paid by the businesses to households. These factor payments are not the only source of funds for households. They also may receive transfer payments or borrow money from the bank. The following sketch shows sources of money income going to families or households and how they dispose of their income. A household does three things with its income: saves part, spends part on goods and services, and spends part on taxes.

SOURCES AND USES OF HOUSEHOLD INCOME


Payments to households by businesses
Wages and salaries
Rent
Interest
Profits
Additional sources
Bank borrowings
Transfer payments
government
other households
Taxes $
Consumption expenditures $
Savings $
Uses of household income
Government-- (Government receipts)
Consumer goods and services-- (Business receipts)
Banks-- (Increased bank deposits)

Economic Generalization V

Households may save part of their money income.

TEACHING GUIDE
Kindergarten

Economic Vocabulary

Business (firm) - an organization engaged in the buying and hiring of resources and the production and sale of goods and services.

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair, and babysitting.

Household income - the total of the money payments received by household members primarily for the performance of services or for the production of goods.

Household saving - household income which is not used to pay taxes and not used to purchase consumer goods and services.

Money - anything which is generally acceptable in exchange for goods and services. Among other functions, money serves as a medium of exchange and as a standard of value. The money supply includes checking accounts, coins, and paper bills.

Price - the value of a good or service stated in money terms.

Productive resources (factors) - natural resources, labor, and tools and equipment that are used in the production of goods and services. In economic jargon, all natural resources are collectively called land; and the tools, equipment, buildings, etc., are called capital. The three--land, labor, and capital--are referred to as the factors of production, because all productive effort requires one or more of these factors.

Saving - the portion of current income which is not paid out in taxes or in the purchase of consumer goods.

Savings - the total accumulation over a period of time of a household's financial assets.

Taxes - involuntary payments of money from individuals and businesses to government.

Economic Concepts

1. Household saving is that part of current money income which is not used to pay taxes and is not spent on consumer goods and services.

Review: It has been noted that a family's income is received mainly from the sale of productive services furnished by the household to business. In turn, most of this household income is spent on the purchase of consumer goods and services. It has been noted also that part of household income must be paid to the government in the form of taxes. Now another dimension needs to be added to the use made of income by a household. Households may decide to save a portion of their income.

What is meant by household saving? Household saving is that part of household income which is not used to pay taxes or to purchase consumer goods and services. While most tax payments are compulsory in nature, households decide how the income remaining after taxes will be used, that is, what proportion to spend on consumer goods and services and what proportion to save.

Household saving should be regarded simply as that part of household income which is not used to pay taxes and not used to purchase consumer goods. Assuming tax payments are given, the more that a household spends on consumer goods, the less it can set aside as saving. Or, to put it another way, the more a given household saves at a particular point in time, the less it spends on consumer goods.

Saving, then, reduces the amount of income available to a household for the current purchase of consumer goods and services. However, it increases the amount of consumer goods and services which can be purchased in the future by that household. The specific reason why people save varies widely, but the general reason is that of increasing future consumption at a cost of present consumption. We may have a specific objective in mind like a new car, a college education, a vacation, or retirement. We may be saving for a "rainy day." In any case, saving decreases present consumption and permits increases in future consumption.

Suggested Activity: To convey the idea that money income can be spent either on consumer goods and services or saved, we want to confront the children with a realistic situation.* We want to provide them with a money income and a variety of goods that may be purchased with that income. They will have to decide whether to use their income for immediate consumption or to save it in order to consume more in the future. Before this activity is started, it would be advisable to inform the children's parents of what is going to be done and ask for their cooperation. A sample letter to parents is found on page 39 following this generalization.

Three main elements are necessary for this activity:

1. A store selling a variety of items with prices ranging from 1¢ to 10¢.

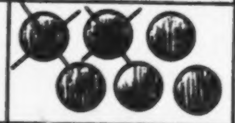
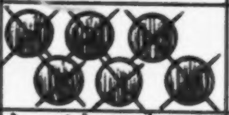
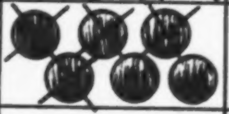
---

*This activity disregards taxes.

For children of kindergarten age, it would probably be best to keep almost all items in the 1¢ to 5¢ price range, with only a few costing more than 5¢. Discuss with the children the types of goods they would like to have in the store--they may include gum, licorice, candy bars, model airplanes, necklaces, rings, plastic cars, bracelets, mirrors, etc. After the goods have been obtained, put price tags on each item. Allow the children to help as much as possible with setting up and running the store.

2. An income of 10¢ per child to be distributed in pennies with each child receiving six pennies on Monday and one penny each succeeding day, Tuesday through Friday. This money can be obtained from the school fund if possible or from the children if necessary. The teacher can collect the pennies that are not spent at the end of the activity each day and pass them out to the children the next day along with the additional penny of income.

3. Lastly, a chart to keep a record of what is happening as the project progresses. One such as the following allows the children to color in the pennies as they receive them and X-them out as they are spent. Therefore, those pennies which are colored in but not X-ed out have been saved.

Name	Monday	Tuesday	Wednesday	Thursday	Friday
Billy		1¢	1¢	1¢	1¢
Annie		1¢	1¢	1¢	1¢
Susan		1¢	1¢	1¢	1¢
Etc.					

During the week, let children discuss the number of pennies they have spent and the kinds of consumer goods they have purchased as well as the pennies they have not spent, that is, the number of pennies they have saved. If children have saved some pennies, they should indicate the more expensive good they can purchase or the increased amount of purchases which they can undertake during the latter part of the week. Since the period covered is a week and since saving makes possible greater consumption in the future, all pennies must be spent by the end of the week. If desired, this activity can be repeated a second time, allowing comparison of the children's spending and saving behavior for the two weeks.

(Sample letter to parents)

Dear Parents:

As you know, our kindergarten class has been learning about economic ideas that matter in our lives. We have talked about income and how we never have enough money income to get everything we want. We have to make choices.

Now we are going to practice using income in class. Each child will be given six pennies (from the school fund) on the first day, then one penny each succeeding day, to the total of ten pennies for the week.

Our "store" will be in our room. Each child has the choice of getting what he wants--candy, cookies, a balloon, etc., each day. On Friday, the more expensive items will be sold--such as: a whistle, a ring, a "monster," etc. If the child has bought candy and cookies at the first of the week, he may not have enough money saved to buy these more durable items. Then during the second week, the "store" will be open and the income paid to each child's account again, so that we may find out whether the children have learned to postpone immediate wants to save for future wants.

Your part in this project will be two-fold. First, I ask that you do not lecture your child about how to spend his income at the school "store." Second, I ask that you refrain from buying the child items that will be in our "store" on Friday. Each child must learn that the cost of what he buys at the first of the week includes what he must do without at the end of the week if he has not saved some if his income.

It is our hope that your child will benefit from this experience. Your cooperation will, we are sure, make this a more meaningful classroom activity.

Sincerely yours,

Your teacher

SECTION II

First Grade

Economic Generalization I

Because of limited income, consuming units must choose which of their many wants for goods and services they will satisfy through purchases in the market place.

OVERVIEW

Most of the many wants of consuming units (households) for goods and services are satisfied through purchases in the market place. Since the money income of consuming units is limited, choices must be made as to which wants for goods and services will be satisfied.

The first generalization focuses on the major economic ideas that:

1. All wants for goods and services cannot be satisfied.
2. There is a need for choice-making.

At this point a distinction should be drawn between economic and noneconomic wants. First, economic wants are limited to those wants satisfied through the use of goods and services which are produced with scarce resources. Such goods as sunshine, air, and ocean water normally are not scarce goods and thus do not present an economizing problem. Second, many wants cannot be satisfied through the acquisition of scarce goods and services. Such wants are for nonmaterial things. They include the desire for friendship, a happy marriage, or religious satisfaction. Economists, as social scientists, are not concerned with how nonmaterial wants are satisfied.

The distinction between goods and services also must be made clear. Goods are tangible objects--such as toys, soap, and shoes--while services are productive acts which satisfy our wants but do not result in tangible objects. For example, a doctor, a dentist, a repairman, and a shoeshine boy all perform services. When we buy and use such goods or services, we act as consumers.

We know everybody has many wants which can be satisfied with goods and services, but in general what else can be said about them? First, as you look at all members in society you become aware of the great variety of wants that exist. It seems difficult, if not impossible, to conceive of listing all the wants of people. Among a host of other factors, age differences, sex differences, climatic differences, educational differences, and social differences help to account for the differences in people's wants. Second, most wants can be satisfied by a variety of foods or services. The desire for travel can be satisfied by different forms of transportation services: horse, bicycle, motorcycle, car, train, bus, boat, airplane, etc. Equally long lists of goods and services can be made which will satisfy our wants for food, clothing, shelter, and entertainment. Third, the list of people's wants for goods and

services seems to be an unending one, and it seems impossible to provide all the goods and services required to satisfy all of people's wants for them.

Ample evidence exists to quickly convince us that there are not enough goods and services to satisfy all the wants of everyone. The typical consuming unit (household) faces an almost immediate restraint when it attempts to satisfy its wants through the acquisition of goods and services. Families are limited by their money income, for only those goods and services can be obtained which can be paid for. Since money income is limited and since money prices must be paid to obtain goods and services, income and prices are restraining forces limiting the number and kinds of goods and services which can be acquired.

Because of income and price restraints, consuming units cannot satisfy all of their wants for goods and services. Since all wants cannot be satisfied and since wants vary in importance, families must choose which wants will be satisfied. The particular choices made will be determined in large part by the size of the family income, the prices of different goods or services, and the ability of different goods or services to satisfy the wants.

Wise choice-making is necessary in order to obtain the most satisfaction possible from the purchase of goods and services. The opportunity cost of goods and services purchased is not their money price but the other goods and services which could have been purchased with the limited money income. Choices must be made in order to purchase those goods and services which provide the consuming unit with the most satisfaction in relation to the amount of money income spent for them.

Economic Generalization I

Because of limited income, consuming units must choose which of their many wants for goods and services they will satisfy through purchases in the market place.

TEACHING GUIDE
First Grade

Economic Vocabulary

Business (firm) - an organization engaged in the buying and hiring of resources and the production and sale of goods and services.

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair and babysitting.

Consuming unit - a person or group (household) which uses goods or services.

Money - anything which is generally acceptable in exchange for goods and services. The money supply includes checking accounts, coins, and paper bills.

Household income - the total of the money payments received by household members primarily for the performance of services or for the production of goods.

Price - the value of a good or service stated in money terms.

Economic Concepts

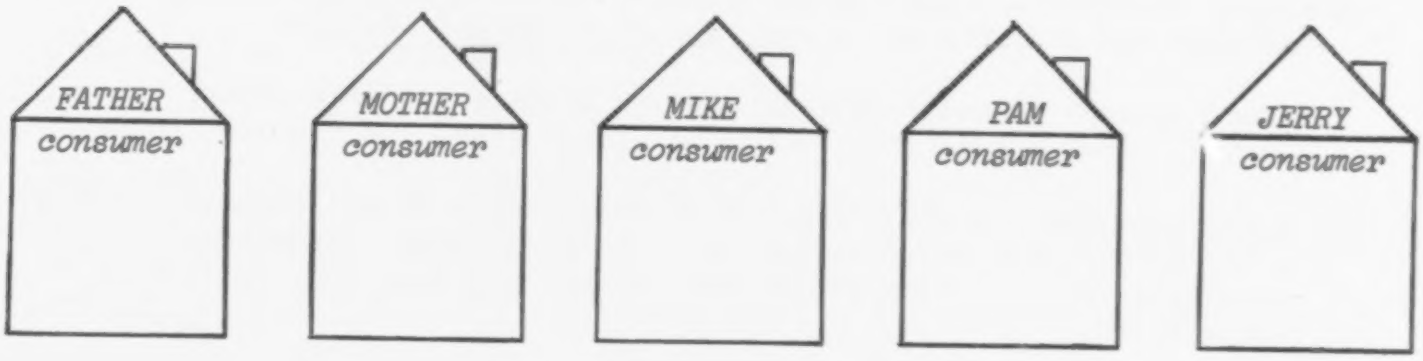
1. Families have many wants for goods and services. A family's wants for goods and services may differ from the wants of other families.

In the first grade, we use the family as the basic consuming unit. While discovering the great number and variety of wants of a family, we can make distinctions between economic and noneconomic wants and between goods and services. Hopefully, this will be a review of material learned in kindergarten.* We can then extend the ideas to compare families' wants and note similarities and dissimilarities resulting from the size and composition of each family and the ages and sexes of its members. Such comparisons also can demonstrate that although wants may be similar, there are often many different ways in which these wants can be satisfied. That is, there may be many different goods or services that will satisfy a given want.

---

*For children who have not been exposed to this in kindergarten, reference should be made to the Teaching Guide for Kindergarten, Generalization I, Concept 1, "Mountain of Wishes."

Suggested Activity: In order to convey the above points, each child can make a book in the shape of a house with a separate page to represent each member of his family. The children can print the names or draw pictures of each family member at the top of the pages. Underneath the names, the word "consumer" can be placed to show that everyone consumes goods and services.



Have each child fill in each page with goods and services which the members of his family have or would like to have. This can be done by printed words, pictures cut from magazines, or drawings by the children and can include such things as food, clothing, and shelter which everyone most likely has in some form but, nevertheless, continually wants. This activity should demonstrate great numbers of wants and variety because of the differences of ages and sex of family members. General similarities may also be evident. Comparison of several books will probably reveal more similarities as well as greater variety and include differences because of the sizes of the children's families. At this point, questions may help the children make comparisons to illustrate the ideas:

What kinds of things do families want?

Do they want both goods and services? (yes) What are some examples of these?

Do all families want the same goods and services?

Why do families want different goods and services? (because of differences in sizes, compositions, ages, etc.)

If families do have an identical want, do they all satisfy it in the same way? Do all families buy the same kind of food in order to satisfy a want for food? (no, there are many ways to satisfy a particular want)

2. Family income is the most important determinant limiting the amount and kinds of goods and services consumed by a family.

The money income of all families is limited in relation to all the goods and services they want. Money prices must be paid to businesses in order to obtain most goods and services. Such payments use most of the money income of families and leave less for further purchases of goods and services. Although no family can satisfy all of its wants for goods and services, because of the wide range of incomes some families can satisfy more wants than other families can. Some families are able to satisfy fewer of their many wants for goods and services--and probably satisfy these wants differently--than are families with higher incomes.

Suggested Activity: Before we talk about the use of family income, the children should have an idea of where family income comes from. Parents can be involved in helping the child to learn this concept. (A letter from teacher to parents can help pave the way and explain that the children will be studying the relationship between limited family income and the many wants for goods and services. It should be made clear that we don't want to know personal details, such as the level of income, but only such things as how many producers the family has and who receives income.)

After parents have been introduced to what is being done, have the children write letters to their parents with questions such as:

Do you work inside or outside the home?

Do you produce goods or services?

Do you receive income for your work?

Does anyone else in our family receive income?

When the information has been obtained, the children can draw pictures illustrating various aspects of it. Two pages could now be added to the children's books--one illustrating "producers inside the home" and the other "producers outside the home." You can point out that, although everyone is a consumer, only some earn income by producing goods or services outside the home. You can also help the children discover how many of their parents earn income by producing goods and how many earn income by producing services.

Now that the children have discovered the sources of their families' incomes, we can deal with the satisfaction of wants for goods and services through the use of these incomes. Children should be aware of the prices that must be paid in order to obtain goods and services from businesses. They should now also know that they and their families have only a certain amount of income with which to purchase these goods and services. Using their own experiences, it can be shown through questioning, that just as they probably cannot purchase everything they would like to have with their allowances, their families cannot obtain all the goods and services they want with their money income.

How do we obtain goods and services from businesses? (pay money prices)

What must be used to purchase goods and services? (money income)

Can you buy all the goods and services you want? (no) Why not? (money income is limited)

Do you think your family can buy all the goods and services it wants? (no) Why not? (family income is limited)

3. Since a family cannot satisfy all of its wants for goods and services, it must choose which wants to satisfy and how to satisfy them.

Given their wants, the prices of the goods and services that could satisfy them, and the amount of income available for this purpose, families must decide which wants to satisfy, in what order, and how to satisfy them. Some wants are more important than are other wants. Furthermore, a given want may be satisfied in many different ways. Since goods vary in the amount of satisfaction they will provide and since the prices of them are likely to differ, these--as well as available income--are important factors to be considered when deciding how to spend family income.

Suggested Activity: Have children draw or cut out pictures (at school or at home) of five goods or services (each costing 25¢ or less) that they would like to have. Put the appropriate prices on each item. Have the children decide which they want the most, second most, etc. Then divide the class into three groups. Give each child in one group an allowance of 10¢, each child in another group 25¢, and each child in the third group 50¢. Tell the children to consider the allowance (money income) they have and the prices of the goods that they want. Have them decide which goods they would purchase.

Can you purchase all the goods you want? Why or why not?

How many can you purchase?

Can you purchase the item you wanted most? If not, why not? (money income is less than the price of the item)

What goods couldn't you purchase? If you had purchased one of these goods (providing its price was within the child's allowance), what other goods couldn't you have purchased?

(You may want to use several children as examples for the class.)

Economic Generalization II

Scarce resources are required for the production of goods and services.

OVERVIEW

This generalization focuses on the major economic idea that before goods and services can be consumed they must be produced, and their production requires the use of scarce and versatile productive resources. The two key terms here are scarcity and versatility of productive resources.

We began with the understanding from Generalization I that because of limited income and prices of consumer goods, consumers cannot satisfy every want; therefore, consumers need to make decisions concerning which goods and services to purchase. Before consumers can purchase any of these goods and services, however, they must be produced.

Basically, the production of goods and services involves the use of scarce productive resources such as labor, buildings, natural resources, tools, machinery, and management. For example, even in the case of the "little red schoolhouse," the production of educational services requires the use of managers (school board and administrators), labor (teachers, custodians, etc.), natural resources (paper, pencils, crayons, chalk, etc.), and capital goods (buildings, blackboards, desks, furnace, etc.).

What exactly is meant by scarce productive resources? The idea of scarcity means that there are not enough productive resources (natural resources, capital goods, labor, and managerial knowhow) to produce all the goods and services wanted by consumers. Therefore, just as choices have to be made concerning which goods and services you as a consumer will purchase for consumption (because not all of your wants can be satisfied), choices must be made as to which goods and services will be produced with the limited resources. Obviously, there are not enough productive resources to produce all the goods and services everyone wants.

Resources are versatile as well as scarce. That is, most resources can be used in the production of more than one good or service, and most goods or services can be produced with different combinations of resources. For instance, assuming the requisite skills or the ability and willingness to acquire them, the labor services of a woman or man may be utilized as an elevator operator, teacher, writer, factory worker, etc. Again, the important point is that labor services are scarce and if they are utilized in the production of one good or service, they are not available for the production of alternative goods and services. Much the same case exists for other scarce productive factors. For instance, land may be used as a building site, for growing corn or other crops, or for a playground. These are but a few examples of how a given productive resource may be used in the production of a variety of goods and services.

It is also important to realize that most goods or services can be produced with different combinations of productive resources. The production of a given amount of corn involves the use of land, labor, and capital; but this amount of corn may be produced with either a lot of labor, a little capital, and land--or a little labor, a lot of capital, and land. As is true of corn, many goods may be produced with different proportions of land, labor, and capital.

Since there are not enough productive resources available to produce all the goods and services wanted by everyone (scarcity) and since most productive resources can be utilized in the production of many different goods and in different proportions (versatility), wise choices or decisions must be made concerning what goods and services will be produced and how resources will be used in their production. For whenever a resource is committed to the production of a particular good, we should realize that other goods which could have been produced with this resource must be forgone. This is an illustration of the opportunity cost of using resources to produce a particular good.

Most of us would agree that land, labor, capital, and managerial knowhow should be combined so as to produce the greatest quantity of goods and services which will best satisfy both the individual and collective wants of consuming units. Resource misuse or waste occurs when a given resource is used to produce a good which is of less importance than other goods which could have been produced with this resource. Misuse or waste of resources also occurs when a given good is produced with resource combinations which involve the use of relatively more scarce and valuable resources rather than the use of relatively more abundant and less valuable resources.

Economic Generalization II

Scarce resources are required for the production of goods and services.

TEACHING GUIDE
First Grade

Economic Vocabulary

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair, and babysitting.

Consuming unit - a person or group (household) which uses goods or services.

Household income - the total of the money payments received by household members primarily for the performance of services or for the production of goods.

Producers - people who produce or assist in the production of goods or services.

Production - the process of combining productive resources in order to make goods and services.

Productive resources (factors) - natural resources, labor, and tools and equipment that are used in the production of goods and services. In economic jargon, all natural resources are collectively called land; and the tools, equipment, buildings, etc., are called capital. The three--land, labor, and capital--are referred to as the factors of production, because all productive effort requires one or more of these factors.

Scarcity - the condition resulting from the fact that people's wants for goods and services exceed the capacity of resources to produce them.

Economic Concepts

1. Goods and services must be produced before they can be consumed.

   The gist of this concept is that the production of goods involves the use of productive resources which are land, labor, and capital.

   Suggested Activity: Engage the children in a "What we make (produce) at our house" game. Have the children tell what their mother, father, and other members of their family--including themselves--produce in the way of goods and services. List those mentioned and ask whether they are goods or services. Discuss with the children the typical resources employed in taking care of a lawn. Point out to them that both labor and capital may be used. For instance, the father provides the labor required to mow the lawn. However, he may use a number of capital goods including a power mower, rake, clippers, etc.

To assist children in understanding that production must precede consumption and that production involves the use of resources, discuss the following questions:

Why can't you eat a cake before your mother makes it?

What resources are used in making a cake? (these might include butter, eggs, flour, salt; and equipment or tools such as an oven, measuring cup, spoons, bowls, mixer, pans, etc.; most important, mother must provide her labor services)

2. Resources used in the production of goods and services are scarce.

The important point here is that the supply of available resources is too limited to produce all the goods and services wanted.

Suggested Activity: Continue the discussion "What we produce at our house" and elicit answers aimed at bringing out the problem of scarcity. Appropriate questions are:

What prevents your mother from baking 100 cakes? (not enough resources) Would she have time? Would she have enough flour?

Where would she bake dinner if she had the oven full of cakes all the time? (if she kept the oven full of cakes, she would need another oven for dinner, that is, more capital needed)

3. Productive resources are versatile. Many goods can be produced using various combinations of these resources.

The versatility of productive resources can be shown by using land as an example. Land may be used for erecting a building, for the growing of crops, or for a parking lot. Most goods and services can be produced with varying mixes of available resources; for example, the growing of corn can be accomplished by using little land, by having the plants close together, and by using large amounts of fertilizer and labor. Corn can also be grown by using more land with larger spaces between plants and by using less fertilizer and cultivating it by means of a tractor.

Suggested Activity: The making of a cake can be used to illustrate this idea. Suppose that because of the lack of chocolate (scarcer than flour or sugar, etc.) a limited number of chocolate cakes may be made. In this case another type of cake or cookies not requiring chocolate may be made. Most of the ingredients that go into making cake are used in making bread. The flour used in both cake, bread, and cookies can be made into paste for sticking paper together. The teacher may conduct a short discussion concerning the alternative uses of scarce resources:

If your mother has all the ingredients for a chocolate cake except the chocolate, can she make a chocolate cake? (no) How about a cake that doesn't require chocolate? (yes)

What other uses does flour have? (cookies, pie crust, bread) What other foods are made with flour? (noodles, gravy, etc.)

4. Since productive resources available to families are limited, not all wants for goods or services can be satisfied. Therefore, choices must be made as to which goods or services will be produced within the home.

As is the case for most persons, children view money income rather than productive resources as the major factor limiting the amount of goods and services consumed by people. But production must precede consumption, and production involves combining resources. Therefore, since resources are limited, production and consumption are limited, and choices among possible alternatives have to be made.

Suggested Activity: In order to emphasize the importance of scarce resources in the production of goods or in the performance of services, children might discuss the various things that father might do on Saturday, his day off from his regular job. For instance, the following tasks might confront father:

Build a treehouse
Mow the grass
Repair a bicycle tire
Trim the shrubbery
Paint the house
Put up screens
Replace the TV antenna
Repair the highchair
Build a doghouse

After children have discussed the various jobs father can be called upon to do around the house, the following questions may be examined to point out the need for choices:

Can father do all the things noted above? (no) Why not? (limited resources--primarily his labor time)

Why not hire someone else to do these jobs? (may not want to spend limited income for them)

How should father use his labor services? Does he have to make choices? (yes)

Should father try to get another job on Saturday and hire someone else to do the jobs around the house?

Does father want some free time for leisure, that is, to watch a ball game, go fishing, play golf, or take a nap? (probably)

Does father have to make a choice between spending his time performing services for the family and putting aside some of this time for relaxation? (yes)

APPENDIX B
First Grade

Specialization: *Specialization and the division of labor increase the quantity of goods and services that can be produced with a given amount of resources.*

This appendix focuses on the division of labor and its effect on the amount of goods which can be produced.

We have learned in previous generalizations that productive resources are necessary for producing goods and services, that they are limited, and that they may be used in various ways. Therefore, it is important that we use these resources in the most efficient manner. At the same time it is possible to discover new resources and to find new, more efficient ways of using existing resources. One important productive resource is human labor. We shall see how specialization and the division of labor enable this human labor to be used most efficiently to produce a greater quantity of goods and services.

Each person has different interest, abilities, and knowledge. The division of labor takes advantage of the special qualifications of an individual. That is, a person works in an area or does a job which best suits his interest and abilities. One of the easiest ways to see how the division of labor works is to examine the average family household. Each member of a family usually has certain tasks which he performs for the benefit of the whole household. Father's job may be to mow the lawn; mother's, to cook the meals; and sister's, to make the beds. If there were no division of the work, each member would--among other things--have to cook his own meals, make his own bed, and wash his own dishes. It is easy to see, then, how dividing these jobs among the various members of the family affords a more efficient way of performing tasks within the home.

Businesses that produce goods and services also specialize and make even more use of the division of labor. They usually produce a specific good or a limited number of goods and leave the production of other goods and services to other businesses. This in itself is specialization. In addition, they divide the different tasks performed in the production of these few goods among various workers. That is, instead of each man producing a complete product, each man works on one specific part of a product. For instance, in a shoe factory one man may be responsible for putting heels on shoes, one for cutting the leather, and another for sewing the parts together. Rather than each man in the factory making a whole pair of shoes, each man performs a part of the job. As a result, more shoes are produced.

Why? One man may be efficient and fast at one part of the job and another at a different part. By having each man perform the task at which he is fastest and best, more higher quality shoes may be produced than if each man had to

perform every task involved. In addition, when the tasks involved in the production of a good are divided among several workers, those workers become faster and more efficient by continually performing that specific task. An automobile factory is a more obvious example. Here there are engines to be made and assembled, seats to be upholstered, and cars to be painted, as well as many other jobs. It is not likely that one person would be extremely efficient at all of these tasks, but by dividing the tasks among many people, cars can be produced more efficiently.

What do we gain, as a society, from the division of labor and specialization? First of all, through specialization and the division of labor we are able to produce more goods of higher quality. This results from the most efficient use of human labor. Each person performs a task he is trained for and is able to do both quickly and efficiently. Instead of a good produced entirely by one person, we have a good which is produced by several persons--each doing a specific part in the production, with each person more proficient than the others at the specific task he performs. These various people working together can produce more goods, better goods, and produce them faster than if each man produced the entire good by himself.

Another important result of specialization and the division of labor is the greater dependence of one person on others. The family which produces a limited number of the goods and services it desires depends upon businesses and other persons working outside the home to produce those goods and services which it does not produce itself, but which must be purchased from businesses.

Since specialization also occurs in the business world, dependence arises within and among businesses. With different workers within a factory performing different tasks, the amount of final goods and services produced depends upon the coordination of the efforts of all the workers. Because different businesses produce different goods or types of goods, the total amount produced is influenced by the coordination among businesses.

Economic Vocabulary

Division of labor - the separation of production into various tasks performed by different workers, allowing specialization and the development and use of higher and more productive human skill.

Efficiency - producing a maximum amount of goods and services with a given amount of resources or producing a given amount of goods and services with a minimum amount of resources.

Specialization - the concentration of effort on a particular aspect of production (job or product) permitting persons and regions to use to best advantage any peculiar differences in skill and resources.

Application to First Grade

Specialization within the home increases the efficiency (that is, producing a maximum amount of final goods and services with a limited amount of resources) in the production of goods and services. This is illustrated by the activity of the first economic concept of Generalization II. The list of jobs performed by various members of a family indicates the amount of specialization in each household. For example, father might mow the lawn, paint the fence, trim the hedge, and wash the car. Mother could wash the dishes, sweep the floor, buy the groceries, and clean the bathroom. Each person performs different types of jobs or specializes. Such specialization is more efficient for a number of reasons. First, Mother and Father do jobs for which they are best suited. Also, both will improve at the tasks as they do them again and again. For instance, mother, after shopping at a grocery store a number of times, learns where the items are placed and can save time picking them out. Also, she may be better at choosing the best values.

The specialization of family members also will save on the amount of tools and equipment required for a job. If each family member attempted to cook his own dinner at the same time as everyone else, the kitchen might get rather crowded. Each person would need spoons, pots and pans, and other cooking utensils as well as burners and ovens. This adds considerably to the amount of productive resources (that is, labor and capital) required.

In order to emphasize the idea of specialization, the teacher may discuss the following points:

Have the children discuss specific jobs of different members of their families.

Are some family members better at doing certain jobs than other members? (yes) For example, is Father or Mother better at mowing the grass? cooking the meals?

Ask the children if they have any specific jobs to do around the home. If so, ask them if they think they can do the job any better now than when they first began. Do you think most people improve at a job as they become more accustomed to it? (yes, because they learn how to do the job better and in less time, thus more efficiently)

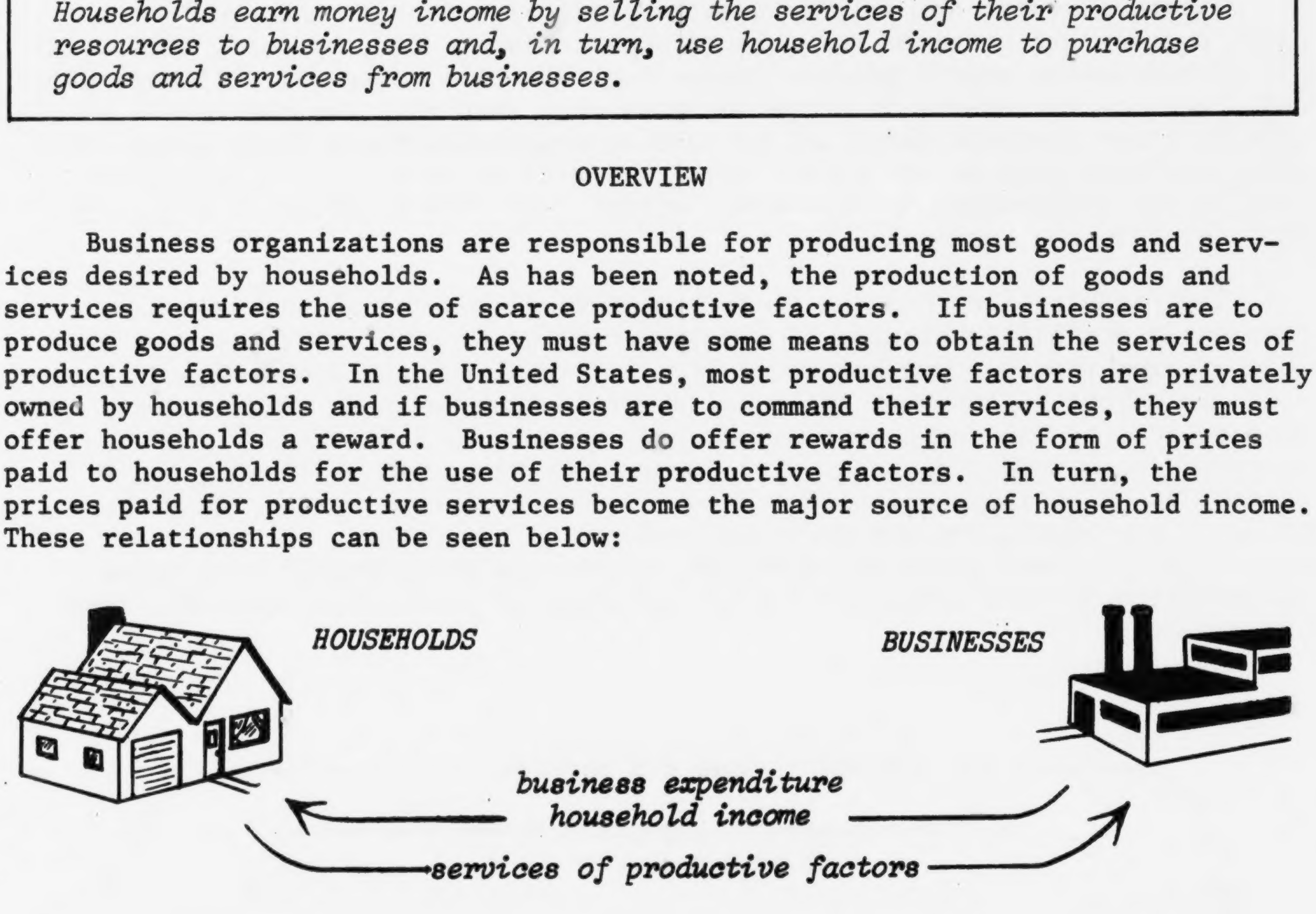
What would happen if the whole family attempted to do the same job at the same time? for example, if everyone tried to cook dinner at the same time? (see above)

Economic Generalization III

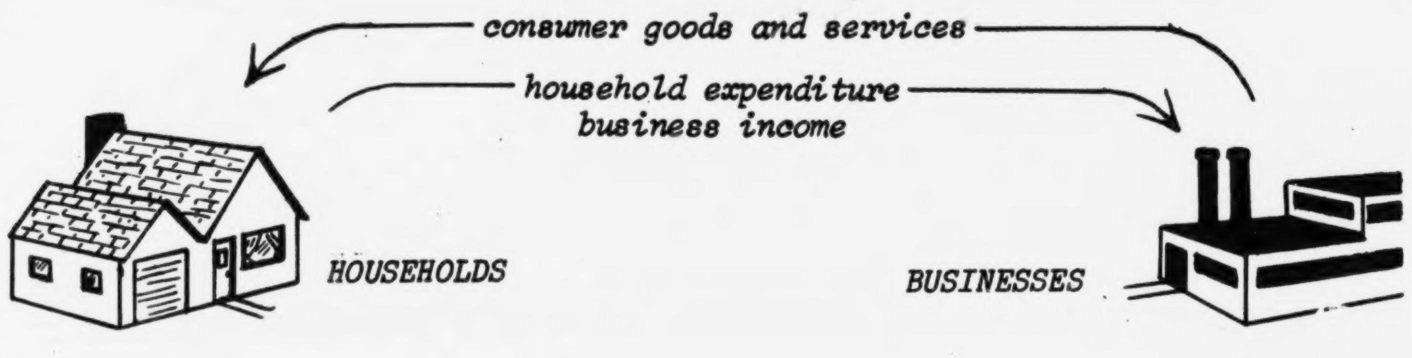
Households earn money income by selling the services of their productive resources to businesses and, in turn, use household income to purchase goods and services from businesses.

OVERVIEW

Business organizations are responsible for producing most goods and services desired by households. As has been noted, the production of goods and services requires the use of scarce productive factors. If businesses are to produce goods and services, they must have some means to obtain the services of productive factors. In the United States, most productive factors are privately owned by households and if businesses are to command their services, they must offer households a reward. Businesses do offer rewards in the form of prices paid to households for the use of their productive factors. In turn, the prices paid for productive services become the major source of household income. These relationships can be seen below:


HOUSEHOLDS
BUSINESSES
business expenditure
household income
services of productive factors

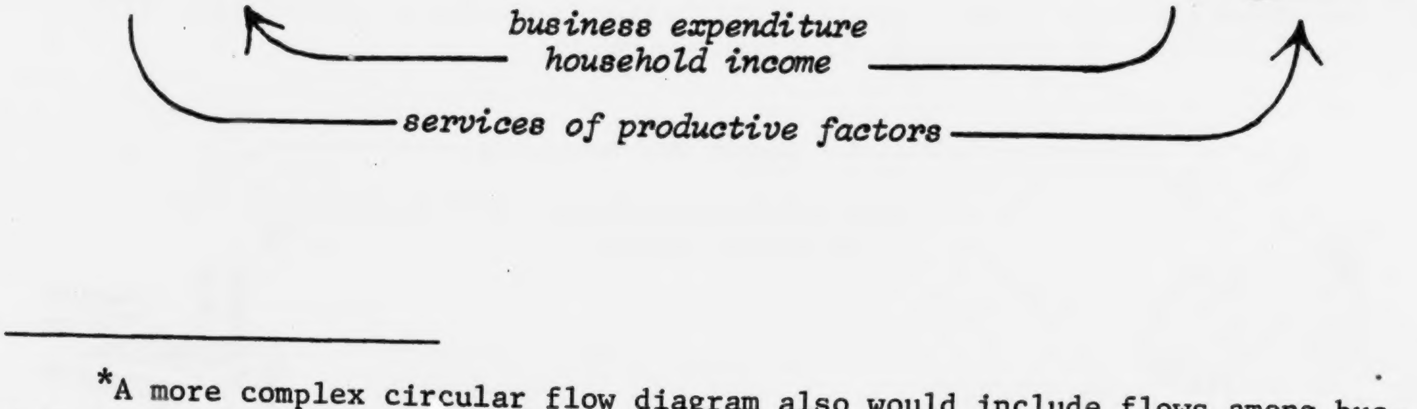
Questions arise concerning why households should exchange the services of productive factors for money income and why businesses should pay money income to purchase factors and utilize them in the production of goods and services. The answer to these questions leads us to an examination of another flow--the flow of money payments from households to businesses, and a return flow of goods and services to households as depicted below:


consumer goods and services
household expenditure
business income
HOUSEHOLDS
BUSINESSES

Households are willing to sell the services of their productive factors to businesses for money income since this money income can be used to buy goods and services desired by households. Fundamentally, households accept money income in exchange for their productive services because they know this money income can be exchanged for goods and services.

Business owners are willing to hire productive factors and use them to produce goods and services for sale to households because, by doing this, owners of businesses expect to earn income for their own household. If businessmen are to be successful in achieving this end, they must use the resources to produce those products which can be sold to households for a price which will cover payments made to the factor owners as well as to provide a reasonable return to the businessman for his time, effort, and risk involved in organizing and operating the business.

The circular flow diagram (below) depicting households and businesses presents a simplified picture of the operation of the United States economy. This diagram represents a beginning step in explaining the dual role of households as buyers of consumer goods and services from business organizations and as suppliers of the services of productive factors to businesses.* In this diagram, the services of productive factors may be viewed as flowing from households to business units in exchange for money income which enables households to purchase goods and services produced by businesses. In turn, as households purchase goods and services, businesses are provided with money income which becomes available for the purchase of productive resources from households.



---

*A more complex circular flow diagram also would include flows among businesses, between businesses and government, and between households and government.

Economic Generalization III

Households earn money income by selling the services of their productive resources to businesses and, in turn, use household income to purchase goods and services from businesses.

TEACHING GUIDE
First Grade

Economic Vocabulary

Business (firm) - an organization engaged in the buying and hiring of resources and the production and sale of goods and services.

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair, and babysitting.

Household income - the total of the money payments received by household members primarily for the performance of services or for the production of goods.

Labor services - the services which members of households perform for businesses, usually in return for household income. Labor service is one of the productive resources.

Money - anything which is generally acceptable in exchange for goods and services. Among other functions, money serves as a medium of exchange and as a standard of value. The money supply includes checking accounts, coins, and paper bills.

Price - the value of a good or service stated in money terms.

Productive resources (factors) - natural resources, labor, and tools and equipment that are used in the production of goods and services. In economic jargon, all natural resources are collectively called land; and the tools, equipment, buildings, etc., are called capital. The three--land, labor, and capital--are referred to as the factors of production, because all productive effort requires one or more of these factors.

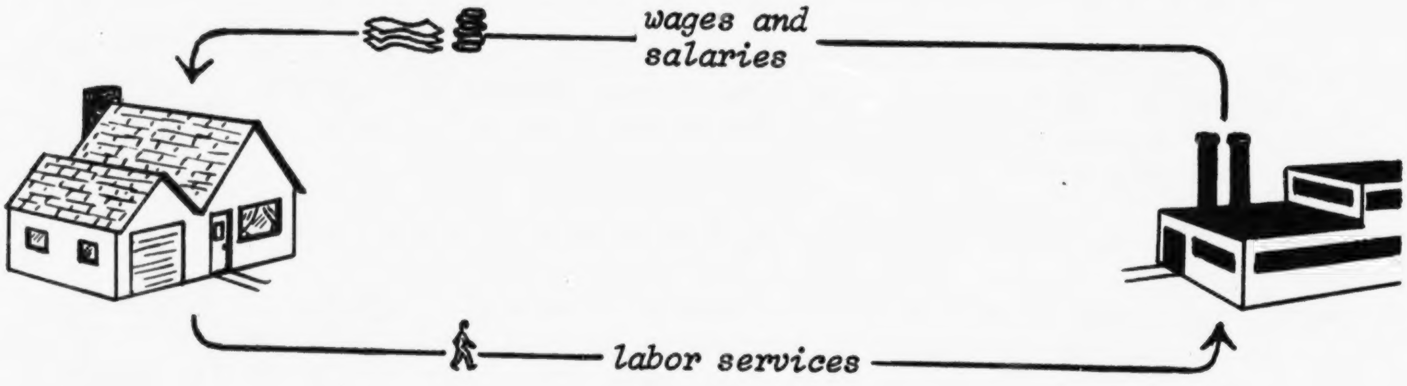
Economic Concepts

1. The sale of productive resources to businesses provides households with their major source of money income.

In the United States, most of the goods and services consumed by households are purchased from business firms. Of course, households must have money income to make such purchases. Households mainly obtain money income through the sale of the services of productive resources owned by the household. Thus, the amount of income a household can earn is closely related to the amount and quality of productive resources which that household is able and willing to furnish in the market place to business firms. In turn, the income a household receives from the sale of productive resources largely determines the amount and kinds of consumer goods and services which that household can buy in the market place.

Suggested Activity: Have children discuss various tasks which they and their father and mother perform in the home. Emphasize the point that these are important productive tasks but that they are performed for the immediate family and, therefore, do not result in increased money income for the family.

Next, discuss the fact that most families have one or more members who work for some business. Children should be aware that many factors influence a person in choosing a particular job but that earning money income is the main reason people work outside the home. Children should be introduced to the circular flow concept by having them draw simple diagrams showing father leaving home for a day of work at some business firm and then returning home with his money income reward.



Questions noted below should be asked:

Does father pay mother for preparing meals and keeping the house tidy? (no) If father did pay mother, would this increase the amount of income available to the household? (no)

If your parents are working outside the home, why did they choose their particular jobs? Would they be willing to work for a business firm if they did not receive money income? (no, unless it was volunteer work)

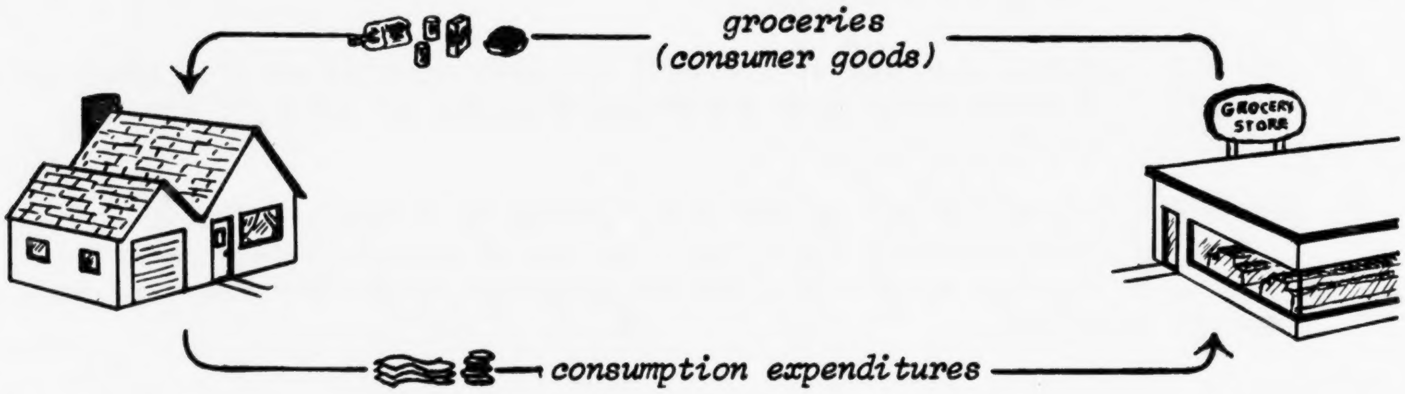
Why are business firms willing to hire workers such as your mother and father and pay them money income? (so they can produce goods and services to sell to households and earn money income)

If one person is less productive than another, should his wages be less? (yes, although this isn't always true)

2. Households use the major part of their money income received from businesses to purchase consumer goods and services from businesses.

The crux of this dimension is that money income earned by working outside the home is available to purchase from businesses the consumer goods and services wanted by the household. Family producers work outside the home mainly so that they can earn income which then can be exchanged for consumer goods and services.

Suggested Activity: Have the children act out the father's role as income earner and the mother's role as purchaser of consumer goods for the household. Pay the children with play money to indicate the wages or salary father receives for working outside the home. Have the children discuss various goods which mother might purchase with this money, and draw the following flow diagram.



They should also discuss the questions below:

Why is father willing to accept money in exchange for his labor services? (children should understand that money is wanted by workers because money is commonly accepted by all people in society; that is, money can be easily exchanged for a great variety of goods and services which households desire)

What would happen to household money income if mother as well as father worked outside the home? (it would increase) if father got a better job or a promotion? (it would increase) What would happen to the amount of consumer goods that the family could purchase? (they would purchase more)

What might happen to the number of household tasks that mother might be able to do? (she would have less time and might not be able to do as much) What might happen to the amount of leisure time available for mother? (it would decrease)

3. Some families receive money income even though no member of the family is paid for producing goods and services outside the home.

The point here is that to exist in a highly industrialized society, families must have some source of money income even if there is no one currently at work producing goods and services outside the home. In a market economy, the price tag of a consumer good indicates the amount of money which must be exchanged to obtain this good. Households which do not have any members employed outside the home may receive money income in the form of unemployment benefits, old age pensions, relief, gifts, or payments to disabled veterans.

Suggested Activity: Discuss with the children various factors which might prevent people from working. These factors may include: 1) age--too young or too old to work, 2) persons who are presently unemployed but are looking for work, 3) persons who are disabled and unable to work, and 4) families without a father and where it is difficult, if not impossible, for the mother to leave the home to work.

Ask questions such as:

Do all families have some person working outside the home? (no) Why not? (note above factors)

Are all families poor who do not have a member working outside the home? (not necessarily--may have accumulated wealth in forms of savings, stocks, bonds, etc.)

Where might families who do not have savings or a member earning an income obtain an income so that they may purchase goods and services? (unemployment compensation, social security, other governmental welfare programs)

Economic Generalization IV

Some of people's wants for goods and services are satisfied through government.

OVERVIEW

This generalization focuses on the idea of wants best satisfied by government, why they are best satisfied by government, why members of a society pay taxes, and what they receive in return.*

We begin with a quick review. Families receive money income for the use of their productive resources (factors of production). These payments are in the form of wages and salaries, interest, rent, and profit. In addition to these payments, a family may receive gifts of money, borrow from a bank, or draw on past savings, thus enabling them to spend more on consumer goods than their current money income would allow.

A family may use its money income in three ways--for purchasing consumer goods and services, for saving, and for paying taxes. We also know that families have many wants, not all of which they can satisfy. They must make choices concerning which ones they will satisfy and which ones they will not. Some of a family's wants can be satisfied by goods and services produced in the home and some by using money income to purchase goods and services from businesses, but others are best satisfied by government. In this generalization we are concerned with those family wants best satisfied by government.

Why are some wants best satisfied by government? Certain services which are important to society--such as national defense or lighthouses--usually will not be provided by private businesses. Why? Businesses are only willing to provide those goods and services which can be sold for a price in the market place. While businesses could produce the lighthouse to warn ships of impending dangers--and all shipowners would benefit--how would the owner of the lighthouse be able to charge a price for this service? Even if shipowners are unwilling to pay for the service, once the lighthouse is in operation, it is impossible to prevent them from using this service. Thus, lighthouses usually are owned and operated by government.

Other goods and services best provided by government are available on the private market, can be made subject to price payments, and can be purchased by an individual. Why then are they best satisfied by government? Most members of society feel that all people should receive a minimum amount of certain

goods and services. Public education through high schools, certain health services such as school nurses, and community sanitation programs are examples. While these services may be purchased by individuals, not all persons would receive an education or adequate health services if they were not provided by the government. Some persons would not have enough money income to provide education or medical services for their children. Others, even though they have enough money, would not be willing to spend enough on education, health, and sanitation. (By "enough" is meant that level which most members of society consider minimal.) The point is that while most members of a society feel there are minimal educational, health, and sanitation standards which should be met by all people, not all people would meet these minimal standards if they were left as the responsibility of each individual.

---

*Taxes are used for other purposes and are important policy instruments but this point shall not be discussed here.

What are some of the wants best satisfied by government? Fire and police protection represent wants that an individual family would find very difficult to fulfill. Many families can use the same fire station and firemen for fire protection and the same police force for police protection. Therefore, it is not efficient for a family to provide its own private twenty-four-hour police and fire protection. A family seldom experiences a house fire large enough to merit a call to the fire station. If a large fire should occur, however, a family would want and need immediately the services of experienced firemen and a fire engine. If fire and police protection are provided by government, all families receive the same protection. They may call upon the police or upon firemen for protection at any time of night or day.

There are other wants which can be satisfied efficiently by an individual family but because of other reasons are best satisfied by government. One such want is that for education. Most families feel that education is important and that every child should be able to go to school. When schools are built and education is provided by government, every child has an equal opportunity to obtain an education through the high school level. If education were available on a private basis only, many children would be unable to obtain a high school education either because their parents would not have the money to send them or because their parents would not be willing to spend as much money on education as would be required. Therefore, if the members of a society feel it would be in their best interest to provide all children with an education, the best way to achieve this is through public education.

How does the government provide these various services to families? Goods and services provided by government are not free. Families pay for these services by paying their taxes. These taxes constitute a form of income to the government. The government then uses this tax money to pay for the goods and services it provides to members of society. The tax money the government spends goes mainly for the purchase of goods and services made available to members of the community as a whole. More specifically, it goes to the workers who provide those services, for purchasing the goods used by all people, and for payments to families unable to earn enough income to purchase minimum amounts of food, clothing, and shelter.

Those goods and services provided by government must be produced just as any good or service must be produced; this requires the use of productive resources. The government may do one of two things: 1) it may either purchase

goods and services from private businesses (the government usually hires private businesses to build post offices, schools, city halls, dams, highways, and other public facilities); or 2) it may produce the goods and services itself (government hires labor to provide many services, including those of teachers, policemen, firemen, postal workers, and many others). If it purchases them from private businesses, money income flows from the government to the private businessman in the form of price payments. If the government produces its own goods and services, money income still flows into the private sector but in a different form. In this case, money income goes directly to the workers employed in the production of the goods and services and to the owners of the capital and raw materials used in that production.

How do families decide exactly: 1) what goods and services will be provided by government, 2) how many goods and services will be provided by government, and 3) how much of their income will be paid to the government in the form of taxes? In addition, how are families assured of the availability of these goods and services? The answers lie in voting and in electing representatives. The members of a community elect representatives to make the actual decisions discussed above. These representatives or government officials voice the ideas and wants of the people who elected them, and in this way the members of society are represented in government. Some examples of elected representatives are mayors on the local level, governors on the state level, and Congressmen and the President on the federal level.

Next, we present the idea of opportunity cost associated with public goods or services provided by government. The taxes a family pays reduce the amount of family income available for the direct purchase of goods and services and/or saving by the amount of the taxes paid. This tax money collected by the government is then used to satisfy wants such as fire protection, police protection, public education, and national defence. The economic cost or opportunity cost of taxes is the alternative goods and services which could have been purchased or produced. That is, the opportunity cost of the taxes paid by members of society is the alternative goods and services which could have been purchased with that money had it not been paid to the government in the form of taxes.

Given scarce resources, the opportunity cost of governmental goods and services is the other goods and services which could have been produced with those resources. To the extent that additional resources are allocated to the public sector, more public goods and services will be available. However, relatively fewer resources will be available to the private sector, and relatively fewer private goods and services will be produced. Of course, the opposite conclusions would hold true if relatively more resources were allocated to the private sector rather than to the public sector.

The opportunity cost principle also operates within the public sector as well as between the public and private sectors. Assuming a fixed amount of resources available for the public sector, then the opportunity cost of a particular batch of public goods is the other public goods and services which could be produced with the given resources.

Economic Generalization IV

Some of people's wants for goods and services are satisfied through government.

TEACHING GUIDE
First Grade

Economic Vocabulary

Business (firm) - an organization engaged in the buying and hiring of resources and the production and sale of goods and services.

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair and babysitting.

Governmental enterprise - a business owned and operated by government.

Household income - the total of the money payments received by household members primarily for the performance of services or for the production of goods.

Market place - an organized situation (not necessarily an actual place) permitting buyers and sellers to deal with one another. Productive resources, goods, and services are traded, generally with money acting as the medium of exchange.

Money - anything which is generally acceptable in exchange for goods and services. Among other functions, money serves as a medium of exchange and as a standard of value. The money supply includes checking accounts, coins, and paper bills.

Productive resources (factors) - natural resources, labor, and tools and equipment that are used in the production of goods and services. In economic jargon, all natural resources are collectively called land; and the tools, equipment, buildings, etc., are called capital. The three--land, labor, and capital--are referred to as the factors of production, because all productive effort requires one or more of these factors.

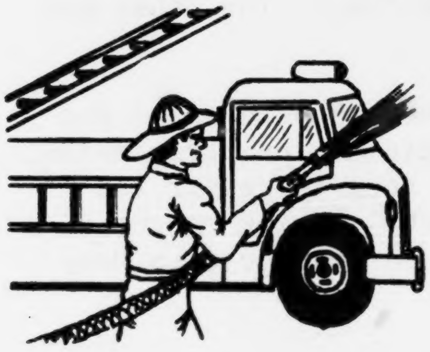
Taxes - involuntary payments of money from individuals and businesses to government.

Economic Concepts

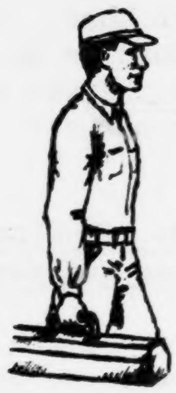
1. While most family wants for goods and services are satisfied by purchases from businesses, some wants for goods and services are satisfied by government.

The point of this dimension is that there are some goods and services that people want which can be obtained through government. People acting together, rather than individually, can obtain services that they could not provide easily for themselves. Examples of such services are: police and fire protection; and provision and maintenance of sidewalks, streets, schools, and parks.

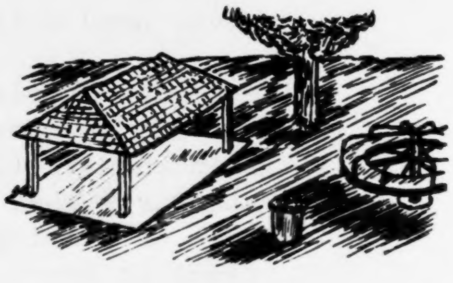
Suggested Activity: With the aid of sketches similar to the ones below, conduct a short discussion on the theme "What government provides us."



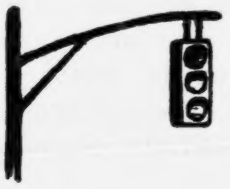
firemen and fire trucks



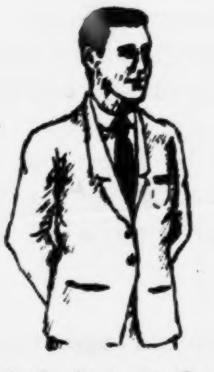
maintenance personnel



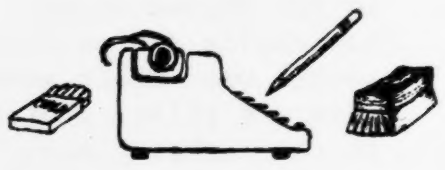
parks



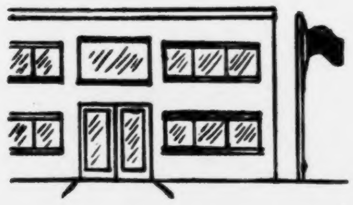
traffic lights



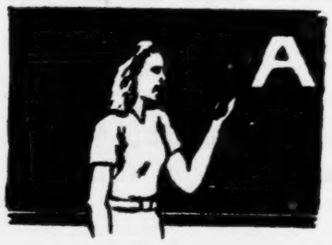
administrative personnel



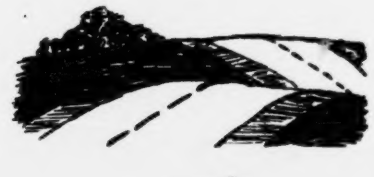
equipment and supplies



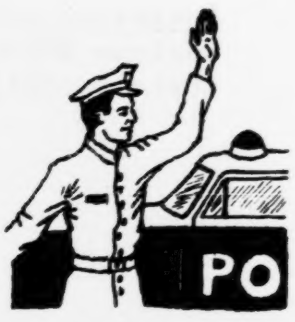
schools



teachers



roads



policemen and police cars

Pertinent questions might include:

Does each child make his own rules of behavior in the home? (no) in the school? (no) in the city? (no) Who makes the rules? (parents, teachers and principals and government) Who enforces the rules or laws? (parents, teachers, policemen) Why do you think there are rules?

Why doesn't each family make its own laws and the father or mother act as a policeman to enforce them? (everyone's laws might be different and they couldn't be enforced--might be very confusing) Why does the government provide police services? (to enforce the laws and protect all citizens)

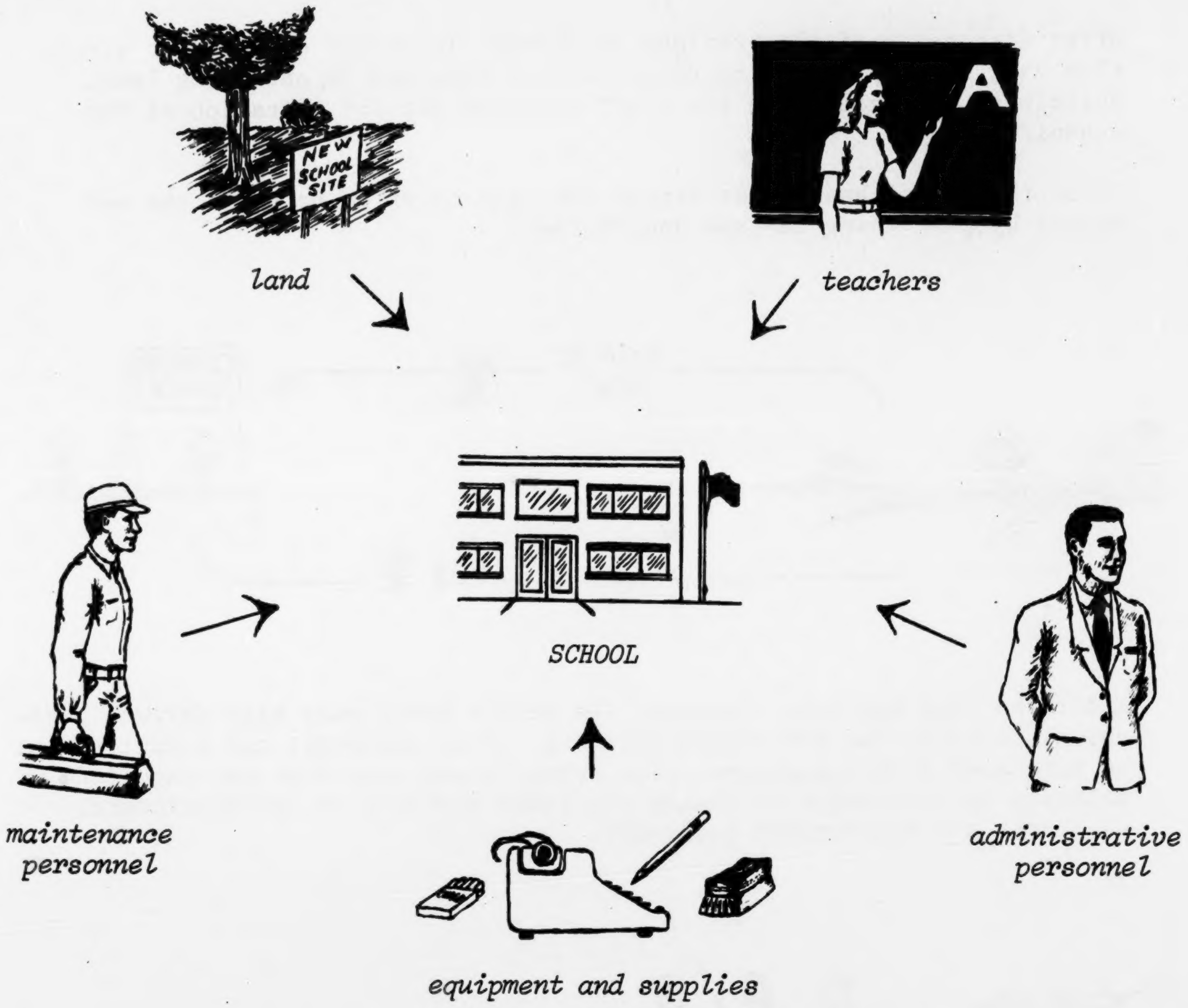
Why doesn't each family provide its own fire protection? (too expensive) Do you think this would be expensive? (yes) Could one family keep a fire truck and firemen busy all the time? (no, they may never need a fire truck and firemen)

Discuss the problems involved if each family owned the sidewalks and streets in front of its home. What if they did not properly maintain these? (there would be no way to force them to repair the streets) What if they charged other people for walking on the sidewalk or driving on the street? (everyone would have to stop many times to pay tolls)

2. As is the case for households, government must have a source of money income if it is to provide goods and services to households.

In the United States, very few of the goods provided by government to households are produced in state or governmental enterprises. If the people wish their government to provide services, that is, postal service, fire and police protection, etc., the necessary resources must be purchased in the market place. Thus, if government is to provide goods and services to households, it must either purchase goods from businesses or it must hire persons to perform the desired services. In either case the government must have a source of money income, and this it obtains mainly through its powers of taxation.

Suggested Activity: Have the children discuss and the teacher list the various materials, equipment, buildings, and labor required for providing their education in a public school. (See drawings on next page.)


NEW SCHOOL SITE
A
land
teachers
SCHOOL
maintenance personnel
administrative personnel
equipment and supplies

Following the discussion, examine the questions listed below:

What group of elected officials determines whether a school will be built and determines how the school will be equipped and staffed? (school board)

Must the school board purchase land for new schools? (yes)

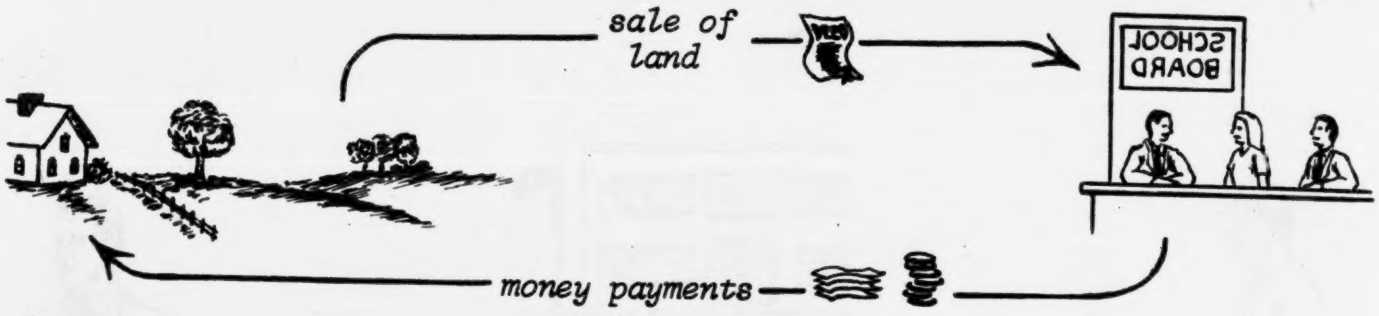
Does the school board build the school building or hire a private construction firm to do this? (hires private firm)

Does the school board produce needed blackboards, erasers, and chalk or does it purchase them from private firms? (purchases them from private firms) If possible, identify these firms. (labels on the various goods should identify the firms)

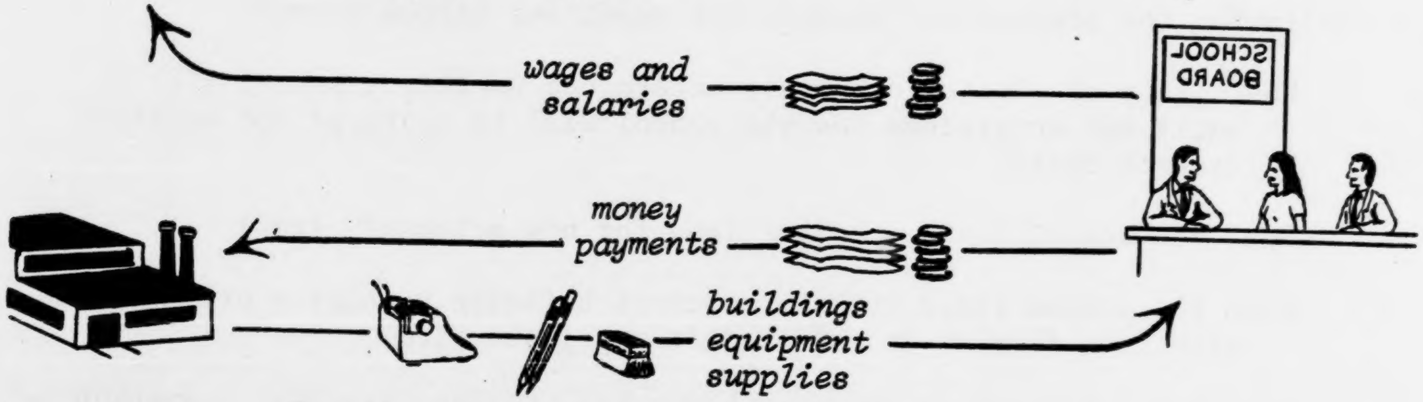
Must the school board hire people to be teachers, administrators, and maintenance men? (yes)

After discussion of the previous questions, introduce children to simple flow diagrams depicting the relationships involved in obtaining land, buildings, equipment, and the staff required for the operation of the school.

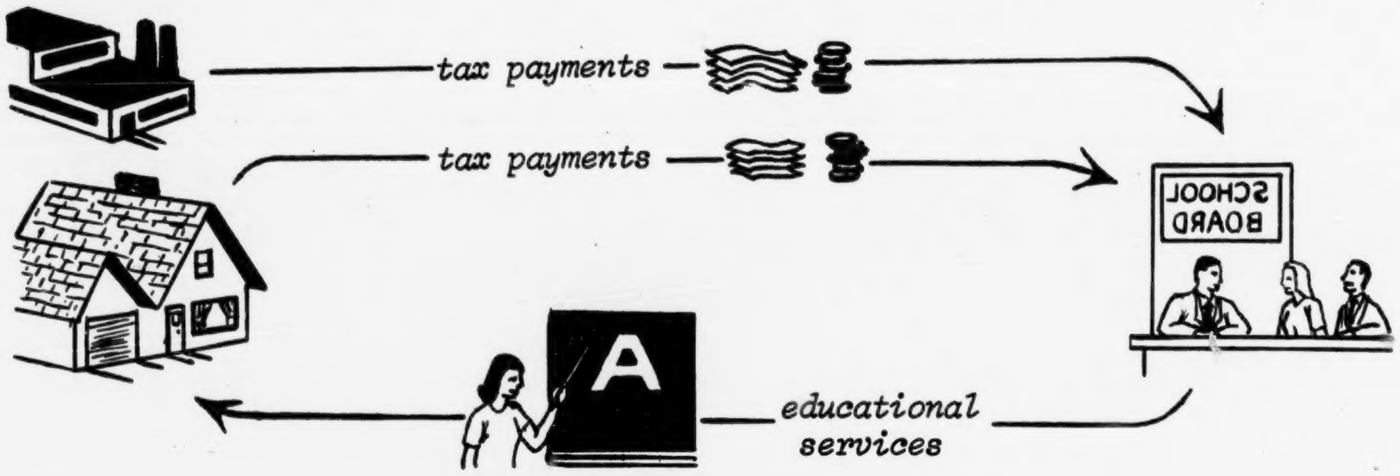
First the school board must obtain the land on which to build the new school by purchasing it from households.


sale of land
SCHOOL BOARD
money payments

After the land has been obtained, the school board must hire private businesses to build the new school building. Then equipment and supplies must be purchased from businesses. The school board also must pay wages and salaries to households to obtain the labor services of administrators, teachers, and maintenance personnel.


labor services
wages and salaries
SCHOOL BOARD
money payments
buildings
equipment
supplies

After children understand that many goods and services are required to operate a school and after they understand that these goods and services must be purchased by the school board from businesses and households, children should be introduced to the idea that school boards obtain most of their needed money income through the collection of taxes from households and businesses. A circular flow diagram should be drawn depicting this flow of taxes from households and businesses to the school board and the return flow of educational services to households.



In order to reinforce the understandings contained in the circular flow diagrams, the teacher should discuss the following questions:

Why must money income be available for use by the school board? (so that they can hire the services of productive factors and purchase goods and services)

What would happen if the amount of money income of the school board was reduced sharply? (the amount of educational services provided would have to be reduced)

How does the school board obtain its money income? (through taxes)

From what source does the school board mainly obtain its money income? (household and business property taxes)

What happens to the amount of household income available to buy consumer goods and services when part of household income must be paid to the school board for taxes? (there is less household income available for purchases of other goods and services)

If children waste materials furnished to them or destroy buildings and equipment, what will their families have to do to replace or repair them? (pay more taxes or give up other government goods and services that could have been provided if repairs weren't necessary)

Economic Generalization V

Households may save part of their money income.

OVERVIEW

This generalization focuses on the concept of saving--why we save and how saving affects our consumption of goods and services. Until this time we have assumed that a household uses its money income for two purposes--paying taxes and purchasing consumer goods and services. With the introduction of saving we have several ways to use this income. We can pay taxes, purchase goods and services, and save.* Let us review what we mean by household money income. The money income a household receives consists of payments--wages and salaries, rent, interest, or profit--for the services of the factors of production.

First we must define saving and then ask what saving implies about our consumption of goods and services. Saving is that part of current money income remaining after taxes have been paid and after goods and services have been purchased. When a family saves part of its income, it is forgoing present consumption for future consumption. That is, it purchases fewer goods and services now, thus increasing its ability to purchase goods and services in the future. Why do families do this?

There are several reasons for saving. A family may wish to save now so it can satisfy important wants in the future. One example would be saving for a vacation next year. A longer range example is saving for retirement, old age, or for the purpose of leaving an inheritance to your family. Another example is saving so that unexpected needs for money can be met in the future, such as medical expenses resulting from an unforseen illness or accident.

It is interesting to look at the connection between the sources of money income and the ways in which money income is used. We have seen in past generalizations how families receive income by selling their productive services and how their income consists of wages and salaries, interest, rent, profit, and transfer payments. Just as the form in which we receive income is determined mainly by the type of productive service we sell, what we do with our income determines where it flows. After the government has received our tax payments, that part of income spent on present consumption flows to business through the purchase of goods and services, and the remainder--saving--is reserved for future consumption.

An important decision to be made when we consider saving as an alternative to consumption is what part of our income we will save. A family receives a

certain limited money income. The first thing it usually does is pay taxes. After taxes have been paid there is a certain amount left over which may be used for purchasing consumer goods and services now or saved and used at some later date. We know a consumer's wants are unlimited and that he must make decisions as to which goods and services he will purchase with this limited income.

---

*Households also can use part of their money income to make voluntary contributions--for example, to churches, Red Cross, cancer fund, Boy Scouts.

When saving is considered as an additional way to use income, another decision is required. This decision concerns what part of a family's income should be spent now and what part saved and spent at some future time. Since we have examined already some of the reasons for saving, we can see why people will postpone present consumption for the purpose of a higher level of future consumption.

We can now ask: What happens to that part of our income which we do not spend (which we save)? First of all, there are many forms in which we may hold our savings. We may keep it in a safe place at home, we may put it in a bank, or we may purchase stocks and bonds.

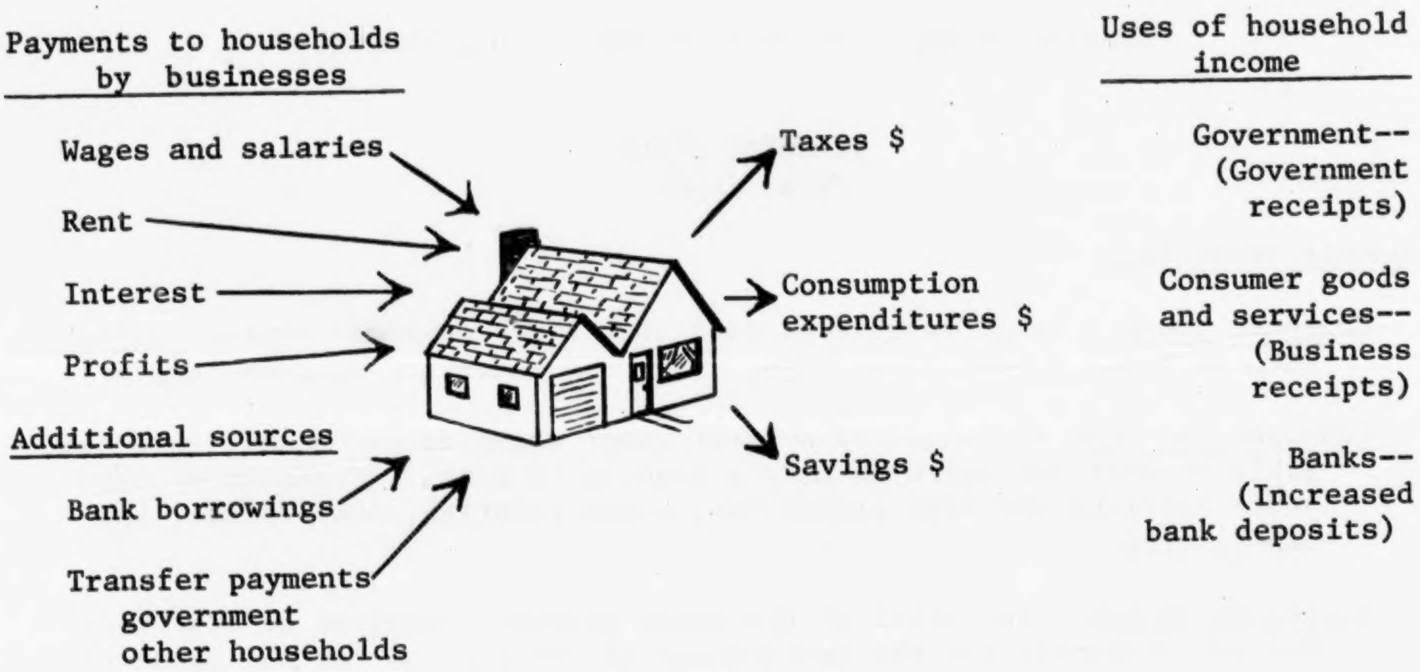
Interest payments were mentioned earlier as a reward for saving. If we keep our money at home, we do not receive interest payments. If savings are kept in the bank, however, we receive interest payments in exchange for the use of our money. The bank uses our money and acts as a financial intermediary. It takes the money which people deposit as savings and makes loans to families or businesses whose present needs for goods and services exceed the money they have to purchase them.

The bank may lend money to a businessman to buy a machine required for the production of goods. The bank also may help your family by loaning them money to buy a house or a car. Whenever a family or business borrows money from a bank, it agrees to repay the money at some designated time.

We have seen that when a family saves part of its income, it reduces current consumption in favor of increased future consumption. On the other hand, borrowing money from the bank has the opposite effect on consumption. If a family borrows money from the bank to buy a car, it increases current consumption at the cost of future consumption because in the future the money borrowed from the bank will have to be repaid. So, saving increases future consumption at the cost of present consumption; borrowing increases present consumption at the cost of future consumption.

In summary, a household receives money income in the form of wages and salaries, rent, interest, and profit. These payments for the services of the factors of production are paid by the businesses to households. These factor payments are not the only source of funds for households. They also may receive transfer payments or borrow money from the bank. The following sketch shows sources of money income going to families or households and how they dispose of their income. A household does three things with its income: saves part, spends part on goods and services, and spends part on taxes.

SOURCES AND USES OF HOUSEHOLD INCOME


Payments to households by businesses
Wages and salaries
Rent
Interest
Profits
Additional sources
Bank borrowings
Transfer payments
government
other households
Taxes $
Consumption expenditures $
Savings $
Uses of household income
Government--(Government receipts)
Consumer goods and services--(Business receipts)
Banks--(Increased bank deposits)

Economic Generalization V

Households may save part of their money income.

TEACHING GUIDE
First Grade

Economic Vocabulary

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair, and babysitting.

Household income - the total of the money payments received by household members primarily for the performance of services or for the production of goods.

Money - anything which is generally acceptable in exchange for goods and services. Among other functions, money serves as a medium of exchange and as a standard of value. The money supply includes checking accounts, coins, and paper bills.

Price - the value of a good or service stated in money terms.

Productive resources (factors) - natural resources, labor, and tools and equipment that are used in the production of goods and services. In economic jargon, all natural resources are collectively called land; and the tools, equipment, buildings, etc., are called capital. The three--land, labor, and capital--are referred to as the factors of production, because all productive effort requires one or more of these factors.

Saving - the portion of current income which is not paid out in taxes or in the purchase of consumer goods.

Savings - the total accumulation over a period of time of a household's financial assets.

Taxes - involuntary payments of money from individuals and businesses to government.

Economic Concepts

1. Household saving is that part of current money income which is not used to pay taxes and is not spent on consumer goods and services.

Review: It has been noted that a family's income is received mainly from the sale of productive services furnished by the household to business. In turn, most of this household income is spent on the purchase of consumer goods and services. It also has been noted that part of household income must be paid to the government in the form of taxes. Now another dimension needs to be added to the use made of income by a household. Households may decide to save a portion of their income.

What is meant by household saving? Household saving is that part of household income which is not used to pay taxes or to purchase consumer goods and services. While most tax payments are compulsory in nature, households decide how the income remaining after taxes will be used, that is, what proportion to spend on consumer goods and services and what proportion to save.

Household saving should be regarded simply as that part of household income which is not used to pay taxes and not used to purchase consumer goods. Assuming tax payments are given, the more that a household spends on consumer goods, the less it can set aside as saving. Or, to put it another way, the more a given household saves at a particular point in time, the less it spends on consumer goods.

Saving, then, reduces the amount of income available to a household for the current purchase of consumer goods. However, it increases the amount of consumer goods which can be purchased in the future by that household. The specific reason why people save varies widely, but the general reason is that of increasing future consumption at a cost of present consumption. We may have a specific objective in mind like a new car, a college education, a vacation, or retirement. We may be saving for a "rainy day." In any case, saving decreases present consumption and permits increases in future consumption.

Suggested Activity: In the first grade we again want to confront the children with a somewhat realistic situation* to help them understand that money income (after taxes) is used for the purchase of consumer goods and services; and the part that is not spent in this manner is saved, permitting increased consumption in the future. To do this, we will need: 1) money income for each child, 2) a classroom store where they can spend their money income, and 3) charts to keep a record of how much each child is spending and saving.

Before beginning this activity, a letter could be written to inform the children's parents of what will be happening and to ask for their cooperation. A sample of such a letter is found on page 39 following Generalization V for Kindergarten. If each child is to bring in the 10¢ required, he can write short letters to his parents, such as: "Dear Mommy, May I have ten pennies for our economics project on saving? Judy." These ten pennies are to be distributed to the children during the week: six on Monday and one each day, Tuesday through Friday.

---

*This activity will disregard taxes and so will not be realistic in that respect.

The teacher should obtain the goods to be sold in the store (gum, suckers, licorice, model airplanes, comic books, whistles, necklaces, mirrors, etc. --anything appropriate costing from one to ten cents). The children, working in committees, can set up the store with some help and supervision from the teacher. They can decide how to display the goods; they can put price tags on each one; and they may even advertise the products with slogans and pictures. To avoid overstocking some of the more expensive (10¢) items, a sample can be displayed and orders can be taken if more than one will be needed.

The third essential element is a chart on which each child may record his daily transactions. Following are a sample card and a completed example.

Sample Student Card

Name ________

	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
Income (number of pennies)					
Purchases (number of pennies)					
Total saving (number of pennies)					

Cheri					
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
Income (number of pennies)	1¢ 1¢ 1¢ 1¢ 1¢ 1¢	1¢	1¢	1¢	1¢
Purchases (number of pennies)	1¢ 1¢	1¢ 1¢ 1¢	—	1¢	1¢ 1¢ 1¢ 1¢
Total saving (number of pennies)	1¢ 1¢ 1¢ 1¢	1¢ 1¢	1¢ 1¢ 1¢	1¢ 1¢ 1¢	—

In the example above, Cheri spent 2¢ on Monday and saved 4¢. Another penny of income along with her 4¢ of saving made 5¢ available to her on Tuesday. She spent 3¢ and her saving was then 2¢. She made no purchases on Wednesday, bringing her saving to 3¢. She spent her penny of income on Thursday, leaving her saving at 3¢. With her penny income on Friday she had a total of 4¢ to spend which was 3¢ more than she could have spent if she had not saved at all during the week.

During the first day of the activity, the teacher can act as a storekeeper after giving each child his six pennies of income. On subsequent days, children can run the store as the teacher continues to pass out the pennies. Have the children fill in their charts each day immediately after deciding how to use their income. They should be allowed to discuss among themselves what they have done and to consume and use the goods they have purchased. The teacher can collect the saved pennies each day and distribute them again the next day along with that day's income.

Throughout the exercise, the children should be entirely free to make their own decisions. It is imperative that the teacher does not tell the children how their money income should be used. This must be left up to each child to decide for himself. Saving is not necessarily a virtue to a child who might get greater pleasure out of present consumption than he would out of waiting for something in the future. If a child spends all 6¢ on Monday and regrets his action on Tuesday when he only has 1¢, he has experienced the consequences of his choice. This may or may not alter his decisions in similar situations in the future.

Since the period covered by this activity is a week and since saving makes possible greater consumption in the future, all pennies must be spent by the end of the week. If desired, this activity can be repeated, allowing comparison of the children's spending and saving behavior for the two weeks.

SECTION III

Second Grade

Economic Generalization I

Because of limited income, consuming units must choose which of their many wants for goods and services they will satisfy through purchases in the market place.

OVERVIEW

Most of the many wants of consuming units (households) for goods and services are satisfied through purchases in the market place. Since the money income of consuming units is limited, choices must be made as to which wants for goods and services will be satisfied.

The first generalization focuses on the major economic ideas that:

1. All wants for goods and services cannot be satisfied.
2. There is a need for choice-making.

At this point a distinction should be drawn between economic and noneconomic wants. First, economic wants are limited to those wants satisfied through the use of goods and services which are produced with scarce resources. Such goods as sunshine, air, and ocean water normally are not scarce goods and thus do not present an economizing problem. Second, many wants cannot be satisfied through the acquisition of scarce goods and services. Such wants are for nonmaterial things. They include the desire for friendship, a happy marriage, or religious satisfaction. Economists, as social scientists, are not concerned with how nonmaterial wants are satisfied.

The distinction between goods and services also must be made clear. Goods are tangible objects--such as toys, soap, and shoes--while services are productive acts which satisfy our wants but do not result in tangible objects. For example, a doctor, a dentist, a repairman, and a shoeshine boy all perform services. When we buy and use such goods or services, we act as consumers.

We know everybody has many wants which can be satisfied with goods and services, but in general what else can be said about them? First, as you look at all members in society you become aware of the great variety of wants that exist. It seems difficult, if not impossible, to conceive of listing all the wants of people. Among a host of other factors, age differences, sex differences, climatic differences, educational differences, and social differences help to account for the differences in people's wants. Second, most wants can be satisfied by a variety of goods or services. The desire for travel can be satisfied by different forms of transportation services: horse, bicycle, motorcycle, car, train, bus, boat, airplane, etc. Equally long lists of goods and services can be made which will satisfy our wants for food, clothing, shelter, and entertainment. Third, the list of people's wants for goods and

services seems to be an unending one, and it seems impossible to provide all the goods and services required to satisfy all of people's wants for them.

Ample evidence exists to quickly convince us that there are not enough goods and services to satisfy all the wants of everyone. The typical consuming unit (household) faces an almost immediate restraint when it attempts to satisfy its wants through the acquisition of goods and services. Families are limited by their money income, for only those goods and services can be obtained which can be paid for. Since money income is limited and since money prices must be paid to obtain goods and services, income and prices are restraining forces limiting the number and kinds of goods and services which can be acquired.

Because of income and price restraints, consuming units cannot satisfy all of their wants for goods and services. Since all wants cannot be satisfied and since wants vary in importance, families must choose which wants will be satisfied. The particular choices made will be determined in large part by the size of the family income, the prices of different goods or services, and the ability of different goods or services to satisfy the wants.

Wise choice-making is necessary in order to obtain the most satisfaction possible from the purchase of goods and services. The opportunity cost of goods and services purchased is not their money price but the other goods and services which could have been purchased with the limited money income. Choices must be made in order to purchase those goods and services which provide the consuming unit with the most satisfaction in relation to the amount of money income spent for them.

Economic Generalization I

Because of limited income, consuming units must choose which of their many wants for goods and services they will satisfy through purchases in the market place.

TEACHING GUIDE
Second Grade

Economic Vocabulary

Business (firm) - an organization engaged in the buying and hiring of resources and the production and sale of goods and services.

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair, and babysitting.

Consuming unit - a person or group (household) which uses goods or services.

Household income - the total of the money payments received by household members primarily for the performance of a service or for the production of goods.

Opportunity cost - the other goods and services which are forgone when a particular good or service is purchased or produced.

Price - the value of a good or service stated in money terms.

Economic Concepts

1. Consuming units have many wants for goods and services. The wants of one consuming unit may differ from the wants of other consuming units.

In discussing the neighborhood at the second grade level, it is necessary to concentrate on the individuals and families within it, since, essentially, they are the "neighborhood." Neighborhoods do not have definite physical, political, or social boundaries recognized by law as do cities or families. But neighborhoods are "real" to people, occupying an intermediate position between city groups and family groups.

People have many wants for goods and services, whether considered as individuals or grouped together as families. Wants are determined by people's tastes which are influenced by such factors as age and sex. The ways in which wants are satisfied depend on tastes, income, family size and composition, and the goods and services available to consumers and their prices.

Consuming units have wants which are both similar to and different from the wants of other consuming units. But even similar wants are likely to be satisfied differently. For example, a want for transportation may be fulfilled by a black Cadillac or a pink Ford. Furthermore, people's tastes change, so therefore their wants and the ways in which they are satisfied can also change. Such changes can be due to increasing age; changing size and composition of families; income changes; and availability of different goods and services and changes in their prices.

Suggested Activity: To convey the above points, we will establish two families who live in the same neighborhood and are at the same income level. This will enable us to dwell on differences because of family size and composition; while at the same time we hold income constant and so, for most practical purposes, ignore it.

Family A	Family B
Father	
Mother	
Baby girl	Father
Second grade twins (boy and girl)	Mother
	Second grade boy
Sixth grade girl	Grandfather
6 family members	4 family members

Have each child draw a different picture so that there will be a picture of each family member of both families, a house for each family, and things found in and around the houses. Pictures in this latter category can depict food, clothing, household furnishings, a service such as milk delivery being performed, and other goods and services generally wanted by a household or a family consuming unit. Displays of each family and its belongings can introduce discussion on the many goods and services each has or wants, how they differ within and between families, and why they might be different.

Appropriate questions might include:

How many members does each family have?

Do both families want the same things?

Which family probably wants more food? (Family A) clothing? (Family A) Why? (it is larger so there are more people to feed and clothe)

Do both families want the same kinds of food and clothing? (no) Do both families want baby food and diapers? (no, only Family A)

The teacher might also help children imagine some of the goods and services grandfather may have wanted as a little boy--horse, buggy, straw hat, oil lamp, etc. Pictures of such items along with discussion of goods and services grandfather did not have--television, radio, electric lights, cars, airplanes, etc.--may help children to see a few of the many differences between then and now.

When grandfather was a little boy, do you think he wanted the same things you want now? (probably not)

Could he have the same things you have? (no) Why not? (many goods and services were not available then)

2. Since the income of consuming units is limited, not all wants for goods and services can be satisfied. Therefore, choices must be made as to which goods and services will be purchased.

No consuming unit has enough income to purchase all the goods and services it would like to have. Each purchase of a good or service requires the payment of a money price and reduces the income remaining for further purchases. As a result, consuming units must decide which goods and services they want most and purchase them in that order. In making such decisions, a consuming unit must consider the importance of various wants, the income available, and the prices of all the alternative goods and services which might be purchased.

Suggested Activity: Children should discuss the sources of income of Families A and B before they discuss spending it. Although we want the families to have approximately the same total income, the teacher should designate different ways of earning it. We can say that Father A works as manager of a department store while Mother A works in the home and does not earn money income. On the other hand, both Mother and Father B work for businesses. Father B is a baker, producing goods, and Mother B performs a service as a clerk in a drug store. Grandfather B may also receive a small pension check. In this manner, we have producers of goods and producers of services who earn money income, workers at home who do not earn money income, and others (children and grandfather) who are too young or too old to work and who are primarily consumers.

We can now pretend that Mrs. A and Mrs. B are going to the neighborhood supermarket to buy one day's food for their families. Using the master list such as the one provided on page 91 following this generalization, the children--under the teacher's direction--can make out a shopping list for each family (assume that they have salt, pepper, sugar, etc.). The children should understand that Mother A will have to purchase more food than Mother B. In addition, she will probably buy less expensive items since she does not have too much more money income to spend than Mother B has.

3. The opportunity (real) cost of purchasing particular goods and services is the alternative goods and services which could have been purchased with the limited money income.

The opportunity cost principle can be introduced at this point. When purchasing a good or a service, the buyer should realize that the money cost of it is the money price which must be paid in order to obtain it. The opportunity (real) cost, however, is not stated in money terms. It is the other good or service which could have been purchased instead of the one that was purchased. It is the possible alternatives forgone because of the purchase of a particular good or service.

Suggested Activity: The children can now list or draw pictures of other goods and services, in addition to food and clothing, that Families A and B might like to purchase--a new car, a vacation trip, a color television, a dishwasher. Since both families have the same income and Family A had to spend more of its income on food and clothing, this family will probably have less to spend on these other items. They may forgo these items by purchasing other goods and services they want such as food and clothing.

Which family has to use more of its money income to purchase food and clothing? (Family A)

After the families have the food and clothing they want, which family will probably have the most income left over to purchase other goods and services? (Family B)

By purchasing more food and clothing, does Family A have to give up other goods and services? (yes)

MASTER SHOPPING LIST

Most of the information below is for the teacher's use only and is purely suggestive. When presented to the children, only the name of the item and the total cost to each family need be used.

It should be emphasized that this is a list from which choices should be made--the "families" obviously will not require everything on the list.

If the items are purchased, the following amounts must be purchased:

Item	Price	Family A	Family B
Dairy Products			
milk	.25/qt	4 qts = 1.00	2 qts = .50
eggs			
small	.40/doz	.40	.40
x-large	.50/doz	.50	.50
cheese	.60	.60	.60
spread			
butter	.80/lb	.80	.80
oleo	.30/lb	.30	.30
ice cream	.60/half gal	.60	.60
Vegetables			
green beans	.30/can	2 cans = .60	.30
tomatoes	.10 each	3 = .30	2 = .20
carrots	.20/pkg	.20	.20
lettuce	.30/head	.30	.30
Starches			
potatoes	.60/5#	.60	.60
rice	.30/box	.30	.30
noodles	.20/bag	.20	.20
rolls (dinner)	.30/pkg	.30	.30
hamburger buns	.25/8	2 pkgs = .50	.25
bread	.30/loaf	.30	.30

continued

Item	Price	Family A	Family B
Meat			
bacon			
brand X	.70/lb	.70	.70
brand Y	.50/lb	.50	.50
sandwich meat			
bologna	.60/lb	3 lb = 1.80	2 lb = 1.20
ham	.80/lb	3 lb = 2.40	2 lb = 1.60
hamburger	.50/lb	4 lb = 2.00	3 lb = 1.50
chicken	.30/lb	4 lb = 1.20	3 lb = .90
pork chops	.90/lb	4 lb = 3.60	3 lb = 2.70
club steak	1.00/lb	4 lb = 4.00	3 lb = 3.00
T-bone	1.20/lb	4 lb = 4.80	3 lb = 3.60
beef tenderloin	2.10/lb	4 lb = 8.40	3 lb = 6.30
Beverages			
orange juice			
fresh	.30/qt	2 qt = .60	.30
frozen	.20/qt	2 qt = .40	.20
coke	.50/6-pk	2 6-pk = 1.00	.50
Kool-Aid	.10/pkg	2 pkg = .20	.10
lemonade	.10/qt	2 qt = .20	.10
Baby Food			
cereal	.10/jar	1 jar = .10	--
fruit	.10/jar	2 jars = .20	--
vegetable	.10/jar	2 jars = .20	--
meat	.25/jar	1 jar = .25	--
Miscellaneous			
cereal			
cold	.35/box	.35	.35
hot	.25/box	.25	.25
peanut butter	.20/small jar	.20	.20
jelly	.30/jar	.30	.30
soup			
brand p	.15/can	3 cans = .45	2 cans = .30
brand q	.20/can	3 cans = .60	2 cans = .40
crackers (saltines)	.30/box	.30	.30
graham crackers	.40/box	.40	.40
cookies			
brand s	.40/pkg	.40	.40
brand t	.60/pkg	.60	.60

Economic Generalization II

Scarce resources are required for the production of goods and services.

OVERVIEW

This generalization focuses on the major economic idea that before goods and services can be consumed they must be produced, and their production requires the use of scarce and versatile productive resources. The two key terms here are scarcity and versatility of productive resources.

We began with the understanding from Generalization I that because of limited income and prices of consumer goods, consumers cannot satisfy every want; therefore, consumers need to make decisions concerning which goods and services to purchase. Before consumers can purchase any of these goods and services, however, they must be produced.

Basically, the production of goods and services involves the use of scarce productive resources such as labor, buildings, natural resources, tools, machinery, and management. For example, even in the case of the "little red schoolhouse," the production of educational services requires the use of managers (school board and administrators), labor (teachers, custodians, etc.), natural resources (paper, pencils, crayons, chalk, etc.), and capital goods (buildings, blackboards, desks, furnace, etc.).

What exactly is meant by scarce productive resources? The idea of scarcity means that there are not enough productive resources (natural resources, capital goods, labor, and managerial knowhow) to produce all the goods and services wanted by consumers. Therefore, just as choices have to be made concerning which goods and services you as a consumer will purchase for consumption (because not all of your wants can be satisfied), choices must be made as to which goods and services will be produced with the limited resources. Obviously, there are not enough productive resources to produce all the goods and services everyone wants.

Resources are versatile as well as scarce. That is, most resources can be used in the production of more than one good or service, and most goods or services can be produced with different combinations of resources. For instance, assuming the requisite skills or the ability and willingness to acquire them, the labor services of a woman or man may be utilized as an elevator operator, teacher, writer, factory worker, etc. Again, the important point is that labor services are scarce and if they are utilized in the production of one good or service, they are not available for the production of alternative goods and services. Much the same case exists for other scarce productive factors. For instance, land may be used as a building site, for growing corn or other crops, or for a playground. These are but a few examples of how a given productive resource may be used in the production of a variety of goods and services.

It is also important to realize that most goods or services can be produced with different combinations of productive resources. The production of a given amount of corn involves the use of land, labor, and capital; but this amount of corn may be produced with either a lot of labor, a little capital, and land--or a little labor, a lot of capital, and land. As is true of corn, many goods may be produced with different proportions of land, labor, and capital.

Since there are not enough productive resources available to produce all the goods and services wanted by everyone (scarcity) and since most productive resources can be utilized in the production of many different goods and in different proportions (versatility), wise choices or decisions must be made concerning what goods and services will be produced and how resources will be used in their production. For whenever a resource is committed to the production of a particular good, we should realize that other goods which could have been produced with this resource must be forgone. This is an illustration of the opportunity cost of using resources to produce a particular good.

Most of us would agree that land, labor, capital, and managerial knowhow should be combined so as to produce the greatest quantity of goods and services which will best satisfy both the individual and collective wants of consuming units. Resource misuse or waste occurs when a given resource is used to produce a good which is of less importance than other goods which could have been produced with this resource. Misuse or waste of resources also occurs when a given good is produced with resource combinations which involve the use of relatively more scarce and valuable resources rather than the use of relatively more abundant and less valuable resources.

Economic Generalization II

Scarce resources are required for the production of goods and services.

TEACHING GUIDE
Second Grade

Economic Vocabulary

Business (firm) - an organization engaged in the buying and hiring of resources and the production and sale of goods and services.

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair, and babysitting.

Consuming unit - a person or group (household) which uses goods and services.

Opportunity cost - the other goods and services which are forgone when a particular good or service is purchased or produced.

Production - the process of combining productive resources in order to make goods and services.

Productive resources (factors) - natural resources, labor, and tools and equipment that are used in the production of goods and services. In economic jargon, all natural resources are collectively called land; and the tools, equipment, buildings, etc., are called capital. The three--land, labor, and capital--are referred to as the factors of production, because all productive effort requires one or more of these factors.

Scarcity - the condition resulting from the fact that people's wants for goods and services exceed the capacity of resources to produce them.

Supply - the amount of productive resources or goods and services which is available.

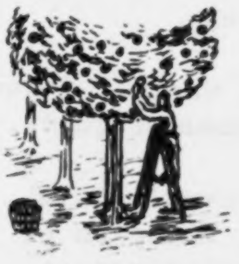
Economic Concepts

1. Before consumers can consume goods and services, the goods and services first must be produced from scarce productive resources.

   The gist of this concept is that the production of all goods and services requires scarce resources. These goods and services must be produced before consumers can use them.

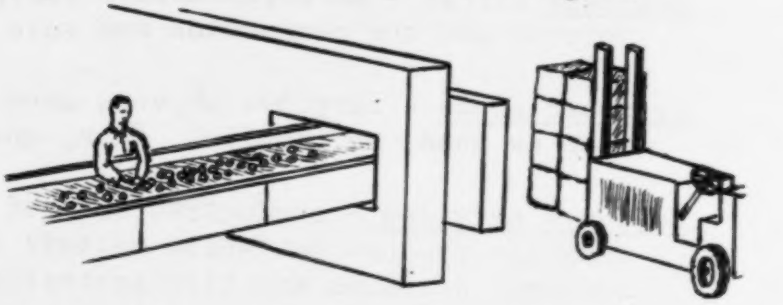
Suggested Activity: The neighborhood supermarket sells many goods and services. One such good is frozen orange juice. To bring out the pertinent points of this dimension, the teacher will find that a discussion on the subject of "How we get our frozen orange juice" will prove helpful. To assist in the discussion, the teacher should draw or have the children draw the series of pictures shown below to represent the use of productive resources to produce the orange juice we purchase at the supermarket.

FARMER produces a good



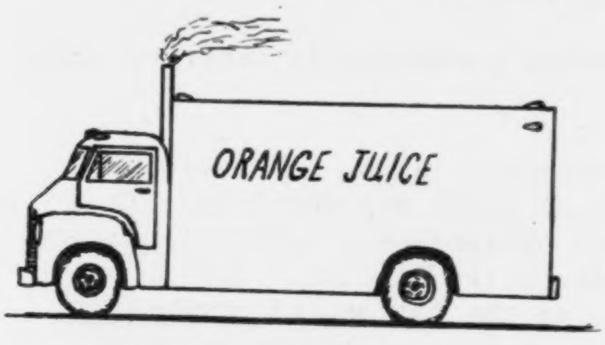
grows and picks oranges

FACTORY WORKERS produce a good



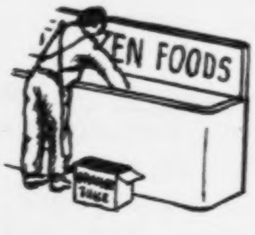
use machinery to squeeze oranges, process and refrigerate orange juice

TRUCKER performs a service



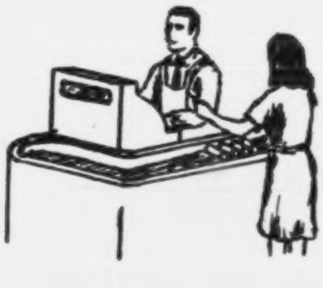
transports juice to supermarket

SUPERMARKET EMPLOYEES perform a service



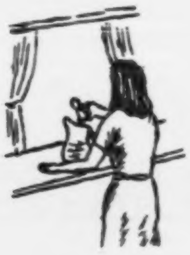
display orange juice for customers to see

CUSTOMER



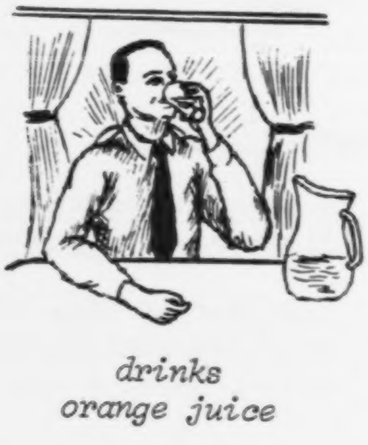
purchases orange juice

PRODUCER performs a service



mixes orange juice

CONSUMER consumes a good



drinks orange juice

Appropriate questions are:

What activities must be performed before a consumer can have orange juice for breakfast? (oranges must be picked and made into orange juice; trucker must transport it to supermarket so consumers can purchase it)

What limits the number of oranges which can be grown? (the number of trees and amount of land used)

What limits the amount of orange juice the factory can produce? (the number of oranges)

What if more orange juice is wanted than the supermarket has for sale? the factory has produced? or the trucker has transported? (more land must be used to produce more oranges so that the factory can produce more orange juice for the trucker to transport and the supermarket to sell)

The children should see the following steps involved in making frozen orange juice available to the consumer:

RESOURCES USED BY THE FARMER	PRODUCT
Land (orange trees and the land they grow on) Labor (his own and helpers) Capital (ladders, baskets, trucks)	Oranges
RESOURCES USED BY THE FACTORY OWNER	
Land (for factory) Labor (his own and factory workers) Capital (building, machinery, and equipment for squeezing, processing, and refrigerating)	Frozen orange juice
RESOURCES USED BY THE TRUCKER	
Land (roadway for his truck) Labor (his own) Capital (truck, bridges, pavement)	Transportation of frozen orange juice to supermarket
RESOURCES USED BY THE SUPERMARKET OWNER	
Land (for market and parking) Labor (his own and employees) Capital (building, cabinets, shelves)	Makes frozen orange juice available to customers

Now that we have established the need for production and the role of productive resources in the process of making frozen orange juice, we should convey the fact that these resources are, indeed, scarce. The scarcity of labor can be shown by looking at the numerous want ads in the local newspapers. Many labor services are wanted by business, but the supply is limited--labor is scarce. The globe can be used to discuss the scarcity of land or natural resources. Although there is much land represented on the globe, there is just that limited amount shown--there is no more. And only a small portion of that land has the appropriate terrain and climate for growing oranges. Furthermore, there are many other uses for the land on which oranges are grown. Productive resources are scarce.

2. Productive resources are versatile.

The significance of this dimension is that the uses of resources are not restricted to that with which we commonly associate them. For instance, the land we pave to make a road could have been used for housing, a park, or for orange trees. In addition, many goods can be produced by various combinations of resources. For example, to grow orange trees you may use many combinations of land, labor, and capital.

Suggested Activity: Continue the discussion "How we get our frozen orange juice." The farmer raising orange trees uses productive resources to produce oranges for the factory.

What are productive resources? (land, labor, and capital used to produce goods and services)

What productive resources do the farmer, factory owner, trucker, or supermarket owner have? (see above)

How does each one use these resources? (see above)

Can each use only two of these resources? (no, all are needed)

Why might the farmer use more capital (spraying equipment, mechanical pickers) rather than hire more workers? (labor is more limited than capital and, so, more expensive to use) When would he buy more land? (when he can sell many more oranges than he can grow on the land he has) If he bought more land, what else might he need? (more labor and equipment to work on it)

3. Since resources are both scarce and versatile, decisions must be made as to which goods will be produced and which resources will be used to produce them.

On a moment's reflection, most of us can identify many additional goods and services which we would like to obtain from business firms. We also can note additional goods and services which we would like government to provide. Why aren't all of our wants fulfilled? The obvious answer, of course, is that fulfillment of our wants requires the production of goods and services. In turn, the production of goods and services requires that productive resources be available. The simple fact is that the supply of resources is too limited (scarce) to produce all the goods and services required to satisfy all of our wants.

Suggested Activity: As noted in the overview, one dimension of versatility concerns the fact that most resources can be used in the production of more than one good. To illustrate the related ideas of scarcity and versatility, have the children suppose that consumers want more orange juice. Let us also suppose that all available resources (land, labor, and capital) are presently employed in the production of various goods and services. Keeping the above conditions in mind, the teacher might explore the following questions. (A felt board presentation of "before" and "after" may be helpful in the discussion of some of these questions.)

Why might orange juice producers want to increase the amount of orange juice available to consumers? (to increase their money income by selling more orange juice)

Discuss the relationship between an increase in the supply of orange juice and changes needed in the supply of oranges and orange trees. (must have more oranges and maybe more orange trees in order to produce more orange juice)

If more orange trees are to be grown, will additional productive resources (land, labor, capital) be used? (yes)

How can the number of orange trees be increased if all available land and labor are presently employed? (must grow less of something else)

Suppose that in order to increase the supply of orange trees, farmers decided to reduce the amount of land used for raising grapefruit. Suppose also that workers are shifted from growing grapefruit to growing oranges.

What does this tell us about resources? (they are versatile--can be used in the production of more than one good)

Are all resources versatile? (most, if not all)

What type of choices were made by consumers? (what goods and how much of them to purchase) by farmers? (what products and how much of them to produce) by workers? (where to sell their labor services)

In what sense were resources scarce? (not enough to produce all the oranges and all the grapefruit wanted)

What was the opportunity cost of increasing the supply of orange juice? (the grapefruit that have to be given up)

Suppose that in Florida there were available considerable idle land and workers suitable for the gorwing of orange trees.

Under these conditions would it be necessary to reduce the production of grapefruit in order to increase the production of oranges? (no)

What would be the opportunity cost? (cost would be anything else that might have been produced with the land and workers--if there is absolutely no other use for these resources, then there is no opportunity cost)

If resources were idle in Florida, would this indicate that resources were not scarce and that all wants of consumers had been satisfied? (no--resources are always "scarce" because there is only a certain amount at any time while consumers' wants are never limited)

APPENDIX C
Second Grade

Specialization: *Specialization and the division of labor increase the quantity of goods and services that can be produced with a given amount of resources.*

This appendix focuses on the division of labor and its effect on the amount of goods which can be produced.

We have learned in previous generalizations that productive resources are necessary for producing goods and services, that they are limited, and that they may be used in various ways. Therefore, it is important that we use these resources in the most efficient manner. At the same time it is possible to discover new resources and to find new, more efficient ways of using existing resources. One important productive resource is human labor. We shall see how specialization and the division of labor enable this human labor to be used most efficiently to produce a greater quantity of goods and services.

Each person has different interest, abilities, and knowledge. The division of labor takes advantage of the special qualifications of an individual. That is, a person works in an area or does a job which best suits his interest and abilities. One of the easiest ways to see how the division of labor works is to examine the average family household. Each member of a family usually has certain tasks which he performs for the benefit of the whole household. Father's job may be to mow the lawn; mother's, to cook the meals; and sister's, to make the beds. If there were no division of the work, each member would--among other things--have to cook his own meals, make his own bed, and wash his own dishes. It is easy to see, then, how dividing these jobs among the various members of the family affords a more efficient way of performing tasks within the home.

Businesses that produce goods and services also specialize and make even more use of the division of labor. They usually produce a specific good or a limited number of goods and leave the production of other goods and services to other businesses. This in itself is specialization. In addition, they divide the different tasks performed in the production of these few goods among various workers. That is, instead of each man producing a complete product, each man works on one specific part of a product. For instance, in a shoe factory one man may be responsible for putting heels on shoes, one for cutting the leather, and another for sewing the parts together. Rather than each man in the factory making a whole pair of shoes, each man performs a part of the job. As a result, more shoes are produced.

Why? One man may be efficient and fast at one part of the job and another at a different part. By having each man perform the task at which he is fastest and best, more higher quality shoes may be produced than if each man had to

perform every task involved. In addition, when the tasks involved in the production of a good are divided among several workers, those workers become faster and more efficient by continually performing that specific task. An automobile factory is a more obvious example. Here there are engines to be made and assembled, seats to be upholstered, and cars to be painted, as well as many other jobs. It is not likely that one person would be extremely efficient at all of these tasks, but by dividing the tasks among many people, cars can be produced more efficiently.

What do we gain, as a society, from the division of labor and specialization? First of all, through specialization and the division of labor we are able to produce more goods of higher quality. This results from the most efficient use of human labor. Each person performs a task he is trained for and is able to do both quickly and efficiently. Instead of a good produced entirely by one person, we have a good which is produced by several persons--each doing a specific part in the production, with each person more proficient than the others at the specific task he performs. These various people working together can produce more goods, better goods, and produce them faster than if each man produced the entire good by himself.

Another important result of specialization and the division of labor is the greater dependence of one person on others. The family which produces a limited number of the goods and services it desires depends upon businesses and other persons working outside the home to produce those goods and services which it does not produce itself, but which must be purchased from businesses.

Since specialization also occurs in the business world, dependence arises within and among businesses. With different workers within a factory performing different tasks, the amount of final goods and services produced depends upon the coordination of the efforts of all the workers. Because different businesses produce different goods or types of goods, the total amount produced is influenced by the coordination among businesses.

Economic Vocabulary

Division of labor - the separation of production into various tasks performed by different workers, allowing specialization and the development and use of higher and more productive human skill.

Efficiency - producing a maximum amount of goods and services with a given amount of resources or producing a given amount of goods and services with a minimum amount of resources.

Specialization - the concentration of effort on a particular aspect of production (job or product) permitting persons and regions to use to best advantage any peculiar differences in skill and resources.

Application to Second Grade

Specialization in the neighborhood makes it possible to produce goods and services more efficiently, namely, to produce the maximum amount of final goods and services with a limited amount of resources. Specialization was illustrated in the first activity of Generalization II of the second grade, "How we get our frozen orange juice." The different activities involved in making orange juice available to consumers are examples of some of the types of specialization which take place.

The first illustration shows people specializing in growing and picking oranges. The oranges are squeezed, processed, and made into frozen orange juice in a factory which specializes in producing frozen orange juice. In addition, within the factory the tasks are divided among many workers, each of whom specializes in one small part of the whole production process. The trucker specializes in transporting the orange juice from the factory to the neighborhood supermarkets, which specialize in displaying and selling goods to customers.

Specialization permits us to take advantage of the differences among productive factors by employing each in the manner for which it is best suited. Individual skills and talent can be utilized to a fuller extent, leading to even greater proficiency as a task is continually repeated and practiced.

In our examples, one man can pick oranges better than he can drive a truck while another drives a truck better than be can pick oranges or do some other job. A tall man may be better equipped to stack cans on the high shelves in the neighborhood supermarket, and he will be able to do the job better as he repeats it. Areas of the country specialize in the production of certain kinds of goods as well. Oranges, for instance, are grown in Florida and California, where the soil and climate are suitable, and are transported throughout the rest of the country.

To help the children understand specialization and how it promotes more efficient production of goods and services, the teacher may discuss the following questions with the children:

Are there any businesses around your neighborhood? If so, what goods and services do they produce? Do the businesses specialize in goods, or do they specialize in services?

Do different people do different jobs in the production of orange juice? (yes)

What types of specialization do you see? (picking oranges, transporting oranges, etc.) Could one man do all of these jobs? (no)

If each man did all of these jobs, do you think very much frozen orange juice could be produced? (probably not)

Do we get more orange juice when the men work together and each man does a different job? (yes)

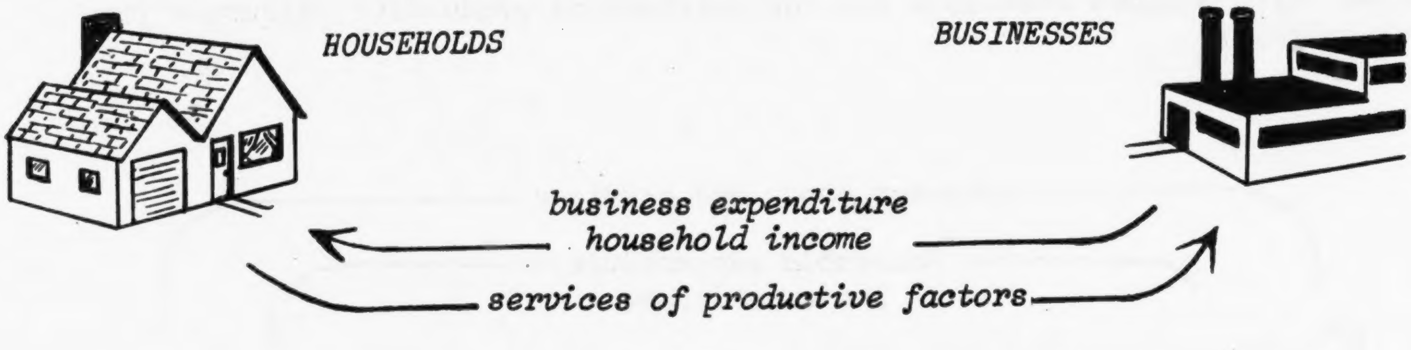
Does each man become more efficient at his job the longer he does it? (yes)

Economic Generalization III

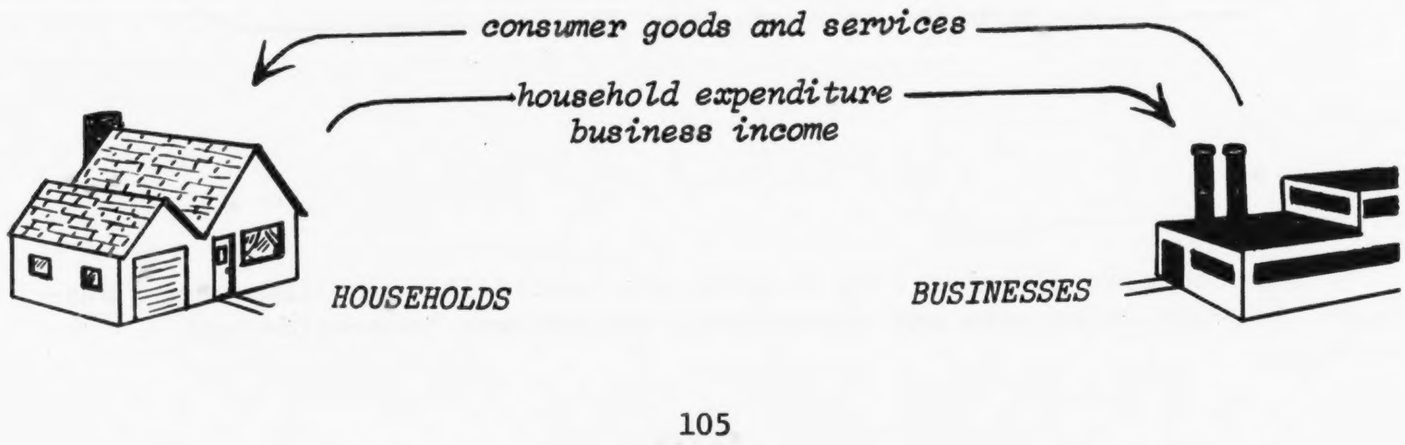
Households earn money income by selling the services of their productive resources to businesses and, in turn, use household income to purchase goods and services from businesses.

OVERVIEW

Business organizations are responsible for producing most goods and services desired by households. As has been noted, the production of goods and services requires the use of scarce productive factors. If businesses are to produce goods and services, they must have some means to obtain the services of productive factors. In the United States, most productive factors are privately owned by households and if businesses are to command their services, they must offer households a reward. Businesses do offer rewards in the form of prices paid to households for the use of their productive factors. In turn, the prices paid for productive services become the major source of household income. These relationships can be seen below:


HOUSEHOLDS
BUSINESSES
business expenditure
household income
services of productive factors

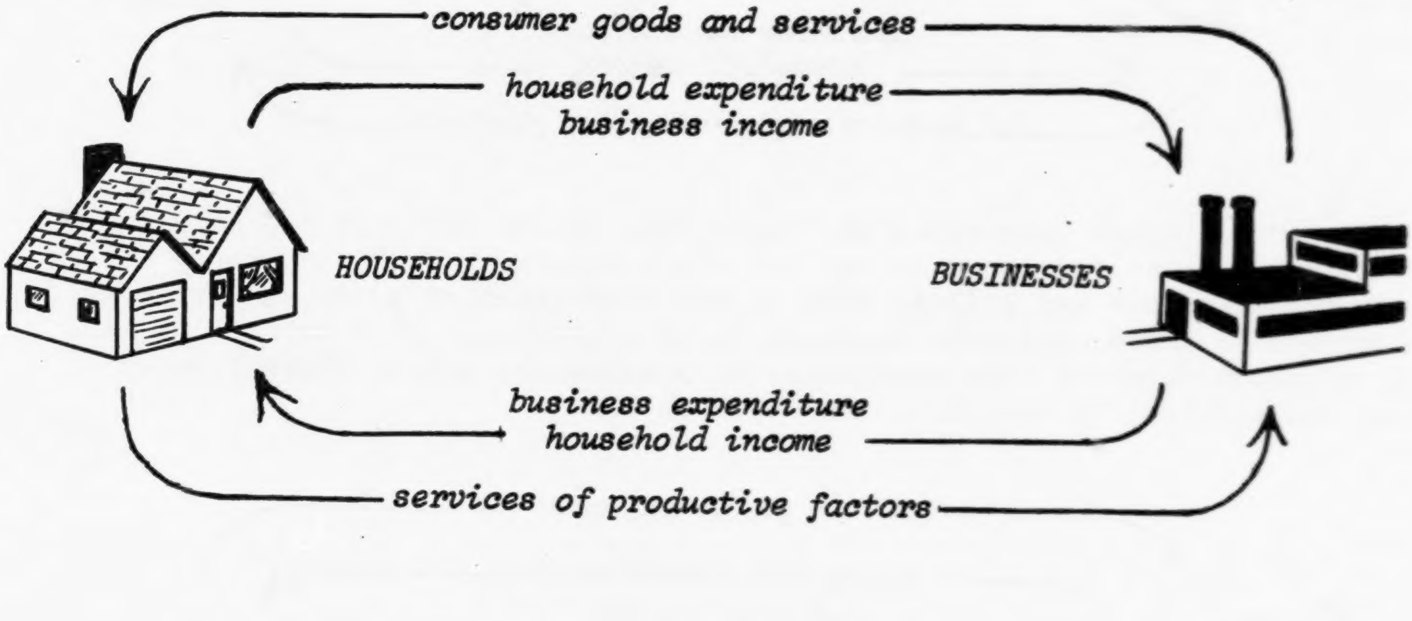
Questions arise concerning why households should exchange the services of productive factors for money income and why businesses should pay money income to purchase factors and utilize them in the production of goods and services. The answer to these questions leads us to an examination of another flow--the flow of money payments from households to businesses, and a return flow of goods and services to households as depicted below:


consumer goods and services
household expenditure
business income
HOUSEHOLDS
BUSINESSES

Households are willing to sell the services of their productive factors to businesses for money income since this money income can be used to buy goods and services desired by households. Fundamentally, households accept money income in exchange for their productive services because they know this money income can be exchanged for goods and services.

Business owners are willing to hire productive factors and use them to produce goods and services for sale to households because, by doing this, owners of businesses expect to earn income for their own household. If businessmen are to be successful in achieving this end, they must use the resources to produce those products which can be sold to households for a price which will cover payments made to the factor owners as well as to provide a reasonable return to the businessman for his time, effort, and risk involved in organizing and operating the business.

The circular flow diagram (below) depicting households and businesses presents a simplified picture of the operation of the United States economy. This diagram represents a beginning step in explaining the dual role of households as buyers of consumer goods and services from business organizations and as suppliers of the services of productive factors to businesses.* In this diagram, the services of productive factors may be viewed as flowing from households to business units in exchange for money income which enables households to purchase goods and services produced by businesses. In turn, as households purchase goods and services, businesses are provided with money income which becomes available for the purchase of productive resources from households.



---

*A more complex circular flow diagram also would include flows among businesses, between businesses and government, and between households and government.

Economic Generalization III

Households earn money income by selling the services of their productive resources to businesses and, in turn, use household income to purchase goods and services from businesses.

TEACHING GUIDE
Second Grade

Economic Vocabulary

Business (firm) - an organization engaged in the buying and hiring of resources and the production and sale of goods and services.

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair, and babysitting.

Household income - the total of the money payments received by household members primarily for the performance of services or for the production of goods.

Money - anything which is generally acceptable in exchange for goods and services. Among other functions, money serves as a medium of exchange and as a standard of value. The money supply includes checking accounts, coins, and paper bills.

Price - the value of a good or service stated in money terms.

Production - the process of combining productive resources in order to make goods and services.

Productive resources (factors) - natural resources, labor, and tools and equipment that are used in the production of goods and services. In economic jargon, all natural resources are collectively called land; and the tools, equipment, buildings, etc., are called capital. The three--land, labor, and capital--are referred to as the factors of production, because all productive effort requires one or more of these factors.

Rental income - the money payments received for temporary use of a house, land, or some other property.

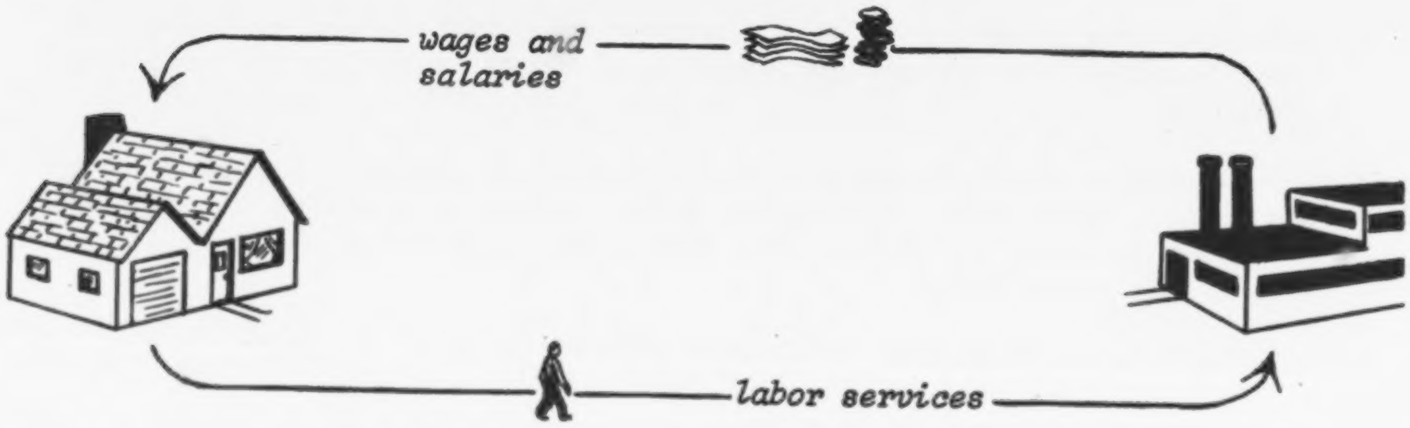
Wages - money paid to a person in exchange for his labor services.

Economic Concepts

1. **Household income is dependent mainly upon the sale of productive resources to business.**

In Economic Generalization II we reviewed the idea that businessmen use scarce resources in the production of goods and services. The resources include land, labor, and capital. To this we add the idea that in the United States the greater part of these resources are owned directly or indirectly by members of households.* Children also are introduced to the idea that the size of household income depends mainly upon the amounts and kinds of productive factors a household has available for sale to business firms.

Suggested Activity: Children should refer to the pictures in Economic Generalization II which depict resources employed in the production and distribution of orange juice. For instance, children might draw a circular flow diagram showing a member of a household providing labor services to the orange juice factory in exchange for money payments to the household.



After the diagram has been completed, the children should discuss the following questions:

Why would the owner of the business (orange juice factory) want to hire laborers? Are they needed in the production of orange juice? (yes)

---

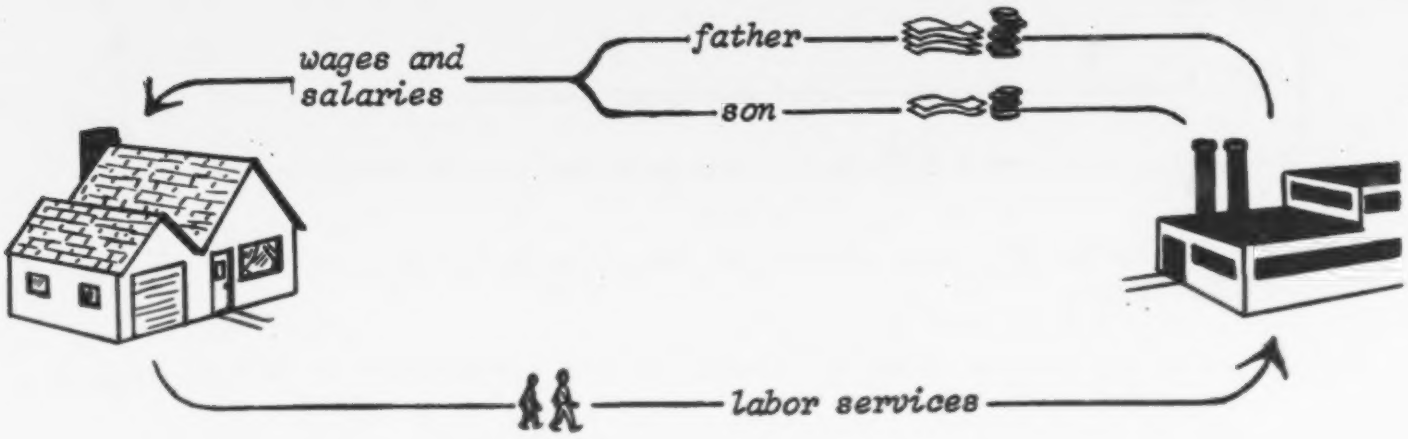
*Many natural resources and especially capital goods are owned by businesses rather than by households. However, businesses, in turn, are owned by members of households, which hold corporate stocks and bonds.

Can the owner of the business force labor to work for him? (no)
What must the businessman do to obtain the services of labor? (purchase it by paying wages or salaries)

If a household provides labor services to buisnesses, what do they receive in return? (money income in the form of wage or salary payments)

When businesses hire labor and pay wages, does this represent a business expenditure? (yes) an income to households? (yes)

Next, suppose that during summer vacation the son as well as the father goes to work at the factory. Children might draw a circular flow diagram such as the one below indicating two persons providing labor services to the factory in exchange for a greater amount of money income.



After the children complete the second diagram, the teacher should discuss the following questions with them:

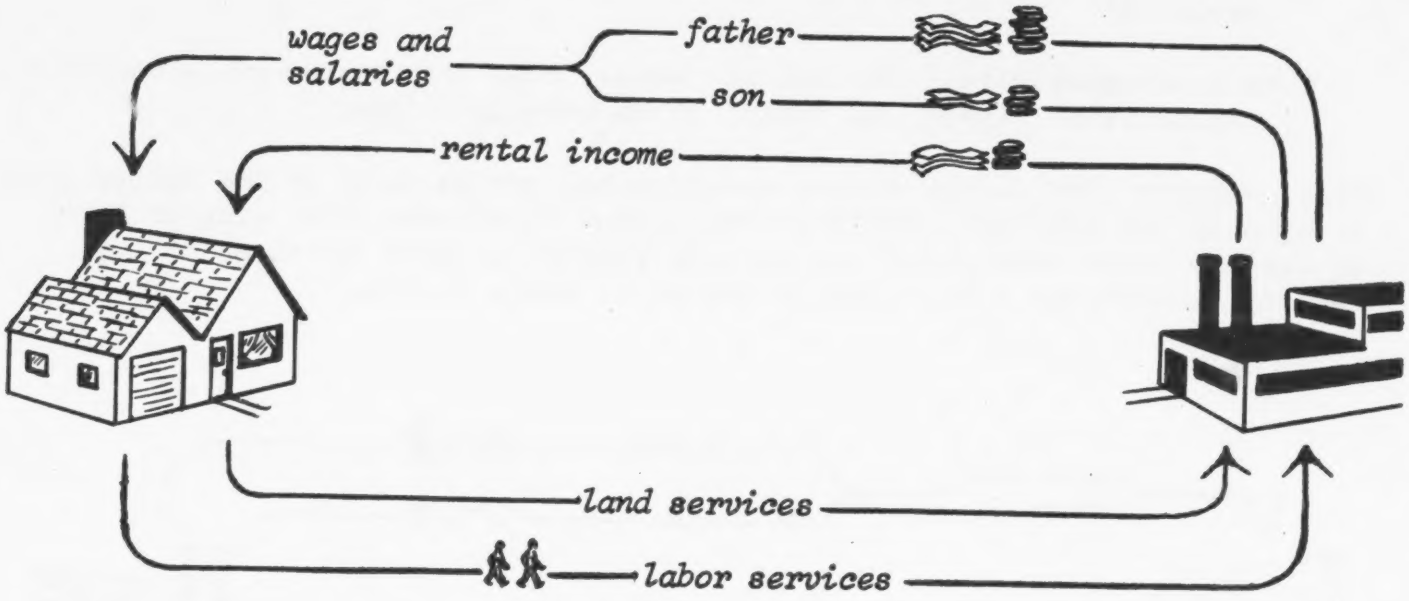
Why would the owner of the factory be willing to hire additional labor? (in order to produce more orange juice)

Why would the son want to work in the factory during the summer? (to earn money income)

What will happen to household income when the son as well as the father works? (it will increase)

Would you expect the son to earn as much as the father? (no) Why? (probably not as experienced and skilled)

Next, suppose that the above family is able to rent some of their idle land to the factory. Have the children draw a circular flow diagram illustrating the exchange of the services of land for money payments (rental income).



After the diagram has been completed, the teacher should discuss the following questions:

How might additional land be useful in the production of orange juice? (to build addition to factory)

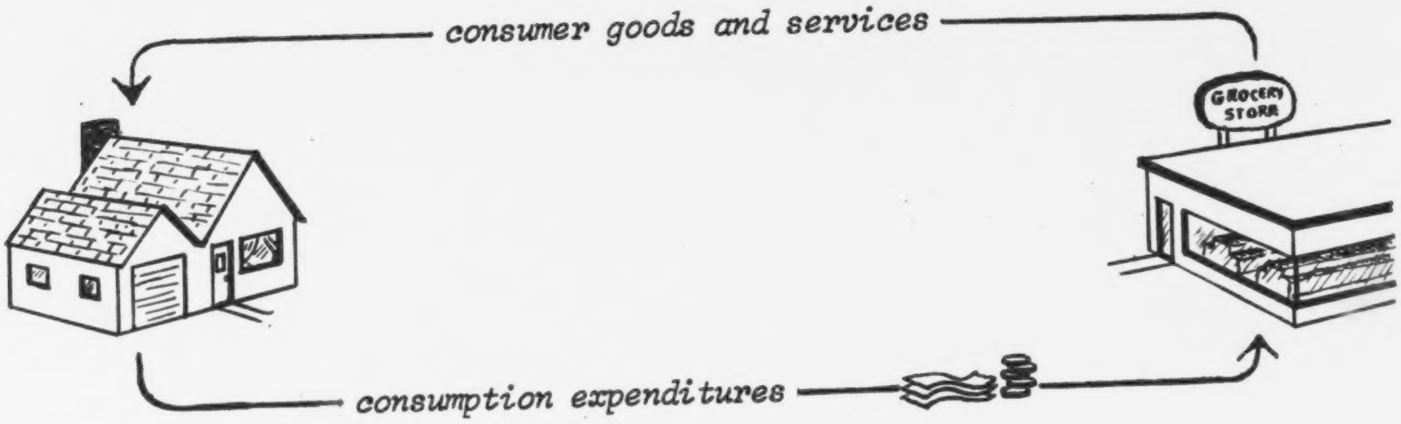
Who owns the land? (households) What must the owner of the factory be willing to do to obtain the use of this land? (make money payments--rent--to households)

What happens to household income when the members of the family provide the services of land as well as labor to the owner of the factory? (it increases)

2. The goods and services which households can purchase from businesses depend upon household income.

As noted in Economic Generalization I, consuming units have many wants for goods and services. Since money prices must be paid to obtain goods and services in the market place, the prices of the goods and services and the amount of money income available to a household determine the extent to which members of a household can satisfy their wants for goods and services.

Suggested Activity: Have the children draw a circular flow diagram such as the one on the next page depicting the mother of the household exchanging money for goods purchased from a grocery store.



After the children have completed the diagram, the teacher should ask the following questions:

How did the household earn the income now being spent on groceries? (by selling the services of their productive resources to businesses)

Why did members of the household wish to earn income? (in order to purchase goods and services)

Could the household buy more consumer goods when the son as well as the father worked? (yes) when the services of land as well as labor were provided to the business? (yes)

What would happen to the production of orange juice if no one was willing to provide their labor services? (it would stop) What would happen to the production of all goods and services if no one was willing to provide his labor services? (all production would stop) Under these circumstances, what would happen to household income? business income? household expenditure? business expenditure? (all would decrease or stop)

If people stopped buying orange juice, would the factory owner continue to use land, labor, and capital to produce orange juice? (no) Would the orange juice factory owner be able to earn an income by producing orange juice? (no) If the orange juice factory will no longer hire labor services, what will happen to household members who worked there? (they will become unemployed and must sell their labor services to some other business)

Suppose people found money growing on trees. Suppose every household stopped selling the services of their productive resources to businesses. Without productive resources, business can no longer produce goods and services, and all factories close down. What good is all the money now? (it is no good) Can people eat it? (no) Can they wear it? (no) Can they live in it? (no) (Note: Money is useful as long as it can be exchanged for goods and services.)

Economic Generalization IV

Some of people's wants for goods and services are satisfied through government.

OVERVIEW

This generalization focuses on the idea of wants best satisfied by government, why they are best satisfied by government, why members of a society pay taxes, and what they receive in return.*

We begin with a quick review. Families receive money income for the use of their productive resources (factors of production). These payments are in the form of wages and salaries, interest, rent, and profit. In addition to these payments, a family may receive gifts of money, borrow from a bank, or draw on past savings, thus enabling them to spend more on consumer goods than their current money income would allow.

A family may use its money income in three ways--for purchasing consumer goods and services, for saving, and for paying taxes. We also know that families have many wants, not all of which they can satisfy. They must make choices concerning which ones they will satisfy and which ones they will not. Some of a family's wants can be satisfied by goods and services produced in the home and some by using money income to purchase goods and services from businesses, but others are best satisfied by government. In this generalization we are concerned with those family wants best satisfied by government.

Why are some wants best satisfied by government? Certain services which are important to society--such as national defense or lighthouses--usually will not be provided by private businesses. Why? Businesses are only willing to provide those goods and services which can be sold for a price in the market place. While businesses could produce the lighthouse to warn ships of impending dangers--and all shipowners would benefit--how would the owner of the lighthouse be able to charge a price for this service? Even if shipowners are unwilling to pay for the service, once the lighthouse is in operation, it is impossible to prevent them from using this service. Thus, lighthouses usually are owned and operated by government.

Other goods and services best provided by government are available on the private market, can be made subject to price payments, and can be purchased by an individual . Why then are they best satisfied by government? Most members of society feel that all people should receive a minimum amount of certain

goods and services. Public education through high schools, certain health services such as school nurses, and community sanitation programs are examples. While these services may be purchased by individuals, not all persons would receive an education or adequate health services if they were not provided by the government. Some persons would not have enough money income to provide education or medical services for their children. Others, even though they have enough money, would not be willing to spend enough on education, health, and sanitation. (By "enough" is meant that level which most members of society consider minimal.) The point is that while most members of a society feel there are minimal educational, health, and sanitation standards which should be met by all people, not all people would meet these minimal standards if they were left as the responsibility of each individual.

---

*Taxes are used for other purposes and are important policy instruments but this point shall not be discussed here.

What are some of the wants best satisfied by government? Fire and police protection represent wants that an individual family would find very difficult to fulfill. Many families can use the same fire station and firemen for fire protection and the same police force for police protection. Therefore, it is not efficient for a family to provide its own private twenty-four-hour police and fire protection. A family seldom experiences a house fire large enough to merit a call to the fire station. If a large fire should occur, however, a family would want and need immediately the services of experienced firemen and a fire engine. If fire and police protection are provided by government, all families receive the same protection. They may call upon the police or upon firemen for protection at any time of night or day.

There are other wants which can be satisfied efficiently by an individual family but because of other reasons are best satisfied by government. One such want is that for education. Most families feel that education is important and that every child should be able to go to school. When schools are built and education is provided by government, every child has an equal opportunity to obtain an education through the high school level. If education were available on a provate basis only, many children would be unable to obtain a high school education either because their parents would not have the money to send them or because their parents would not be willing to spend as much money on education as would be required. Therefore, if the members of a society feel it would be in their best interest to provide all children with an education, the best way to achieve this is through public education.

How does the government provide these various services to families? Goods and services provided by government are not free. Families pay for these services by paying their taxes. These taxes constitute a form of income to the government. The government then uses this tax money to pay for the goods and services it provides to members of society. The tax money the government spends goes mainly for the purchase of goods and services made available to members of the community as a whole. More specifically, it goes to the workers who provide those services, for purchasing the goods used by all people, and for payments to families unable to earn enough income to purchase minimum amounts of food, clothing, and shelter.

Those goods and services provided by government must be produced just as any good or service must be produced; this requires the use of productive resources. The government may do one of two things: 1) it may either purchase

goods and services from private businesses (the government usually hires private businesses to build post offices, schools, city halls, dams, highways, and other public facilities); or 2) it may produce the goods and services itself (government hires labor to provide many services, including those of teachers, policemen, firemen, postal workers, and many others). If it purchases them from private businesses, money income flows from the government to the private businessman in the form of price payments. If the government produces its own goods and services, money income still flows into the private sector but in a different form. In this case, money income goes directly to the workers employed in the production of the goods and services and to the owners of the capital and raw materials used in that production.

How do families decide exactly: 1) what goods and services will be provided by government, 2) how many goods and services will be provided by government, and 3) how much of their income will be paid to the government in the form of taxes? In addition, how are families assured of the availability of these goods and services? The answers lie in voting and in electing representatives. The members of a community elect representatives to make the actual decisions discussed above. These representatives or government officials voice the ideas and wants of the people who elected them, and in this way the members of society are represented in government. Some examples of elected representatives are mayors on the local level, governors on the state level, and Congressmen and the President on the federal level.

Next, we present the idea of opportunity cost associated with public goods or services provided by government. The taxes a family pays reduce the amount of family income available for the direct purchase of goods and services and/or saving by the amount of the taxes paid. This tax money collected by the government is then used to satisfy wants such as fire protection, police protection, public education, and national defense. The economic cost or opportunity cost of taxes is the alternative goods and services which could have been purchased or produced. That is, the opportunity cost of the taxes paid by members of society is the alternative goods and services which could have been purchased with that money had it not been paid to the government in the form of taxes.

Given scarce resources, the opportunity cost of governmental goods and services is the other goods and services which could have been produced with those resources. To the extent that additional resources are allocated to the public sector, more public goods and services will be available. However, relatively fewer resources will be available to the private sector, and relatively fewer private goods and services will be produced. Of course, the opposite conclusions would hold true if relatively more resources were allocated to the private sector rather than to the public sector.

The opportunity cost principle also operates within the public sector as well as between the public and private sectors. Assuming a fixed amount of resources available for the public sector, then the opportunity cost of a particular batch of public goods is the other public goods and services which could be produced with the given resources.

Economic Generalization IV

Some of people's wants for goods and services are satisfied through government.

TEACHING GUIDE
Second Grade

Economic Vocabulary

Business (firm) - an organization engaged in the buying and hiring of resources and the production and sale of goods and services.

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting. shoe repair, and babysitting.

Government income - the total of money payments received by government, generally in the form of taxes.

Market place - an organized situation (not necessarily an actual place) permitting buyers and sellers to deal with one another. Productive resources, goods, and services are traded, generally with money acting as the medium of exchange.

Money - anything which is generally acceptable in exchange for goods and services. Among other functions, money serves as a medium of exchange and as a standard of value. The money supply includes checking accounts, coins, and paper bills.

Private goods and services - goods and services purchased by households directly from private businesses.

Production - the process of combining productive resources in order to make goods and services.

Productive resources (factors) - natural resources, labor, and tools and equipment that are used in the production of goods and services. In economic jargon, all natural resources are collectively called land; and the tools, equipment, buildings, etc., are called capital. The three--land, labor, and capital--are referred to as the factors of production, because all productive effort requires one or more of these factors.

Public goods and services - goods and services provided by government.

Taxes - involuntary payments of money from individuals and businesses to government.

Economic Concepts

1. Most people in a society believe that some of their wants for goods and services should be satisfied by government.

Two major points are stressed in this concept:

a. Families, through their elected representatives, determine the kinds and amounts of goods and services to be provided by government.

b. Families' wants for governmental goods and services are influenced by two opposing sets of forces: 1) a desire for a greater variety and higher quality of governmental services; and 2) a dislike for paying additional taxes required by government for financing the production or purchase of goods and services desired.

In Economic Generalizations I and II, emphasis has been focused on the many wants of families for goods and services; the inability of families to satisfy all of these wants because of the scarcity of resources; and finally, the need for choice-making by families to determine which wants are to be satisfed. Up to this point, the examination has involved only those wants of households for goods and services which were produced either in the home or purchased from a business firm operating in the private sector. Now we wish to turn to an examination of those wants of households for goods and services which are usually satisfied through government.

Suggested Activity: Have the children design a mural depicting the governmental services provided in their neighborhood, including the services of policemen, firemen, and postmen. Other services might include the furnishing of water as well as the disposal of used water, collection and disposal of rubbish, the provision of education for children, the establishment and maintenance of parks, and the building and maintenance of streets.

After the children have completed their mural, they should discuss the following questions:

Do all neighborhoods have sidewalks? (no) Should they have them?

Are streets well maintained? (generally) Could they be improved? (yes)

Are there parks in all neighborhoods? (no) Should there be?

Are schools fairly new, adequately staffed, and supplied with new teaching materials and equipment? (some are; others are not)

In order to better understand the many resources required to provide governmental services, the children might examine a single governmental service in more depth. For example, they might design a mural depicting the land, buildings, labor, equipment, and materials used in providing a service, say, police protection.

2. Families' wants for goods and services provided by government (public goods) compete with families' wants for goods and services satisfied through direct purchases from private businesses (private goods).

   At this point the teacher should refer to the ideas contained in Economic Generalization II. The fact that the production of all goods and services (public or private) requires the use of scarce and versatile resources should be stressed. Since most resources are quite versatile, they may be used in the production of either public or private goods.

   However, there are not sufficient resources to satisfy all wants for both public and private goods. Therefore, if families decide they want more public goods, they must be willing to forgo the private goods which could have been produced with the resources required for the production of the public goods. On the other hand, if people do decide that they want more private goods, they must be willing to forgo the public goods which otherwise could have been produced.

   Suggested Activity: Using the mural, have children indicate alternative private uses which could have been made of the resources required to provide the public services pictured; for example, the labor services of the policeman or fireman could be employed in a manufacturing firm. The police car could be used as a family car or as a taxi. Similar possibilities exist for land use, a building, a radio, etc.

3. If families want public goods and services, they must provide government with money income.

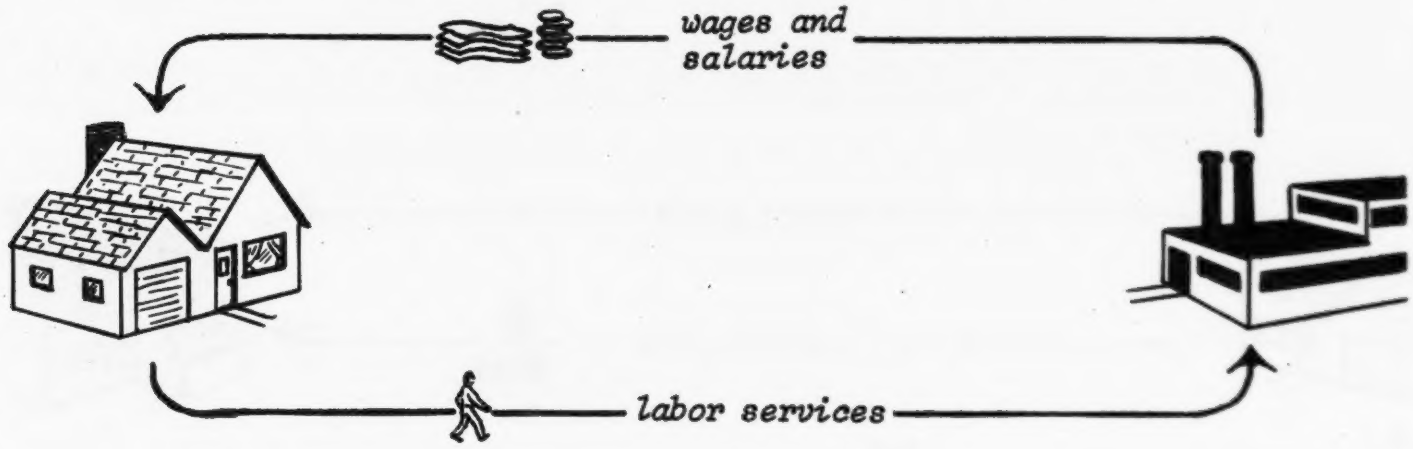
   Children should be reminded that government, in terms of its command over productive resources or goods, is in much the same position as are households or businesses. If government is to provide households with public goods and services, it must either produce them by hiring factors of production or purchase already produced goods from some business. In either case, it must have sufficient money income to pay the price charged for them in the market place.

   The money income of government consists mainly of tax payments received from households.* Tax payments provide government with the means to obtain the goods and services which families want government to provide. Children should understand that government must have additional income if it is to provide more or improved public goods. This means that families must be willing to give up more of their household income in the form of tax payments to government, retaining a smaller amount for spending on private goods than would otherwise be the case.

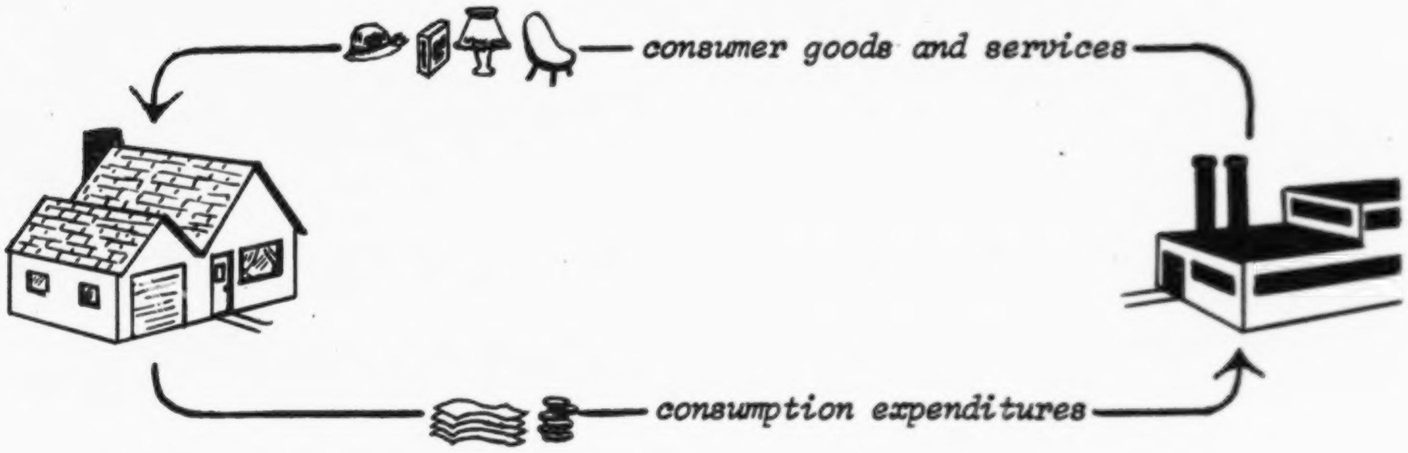
---

*Government also receives substantial sums in the form of tax payments by businesses.

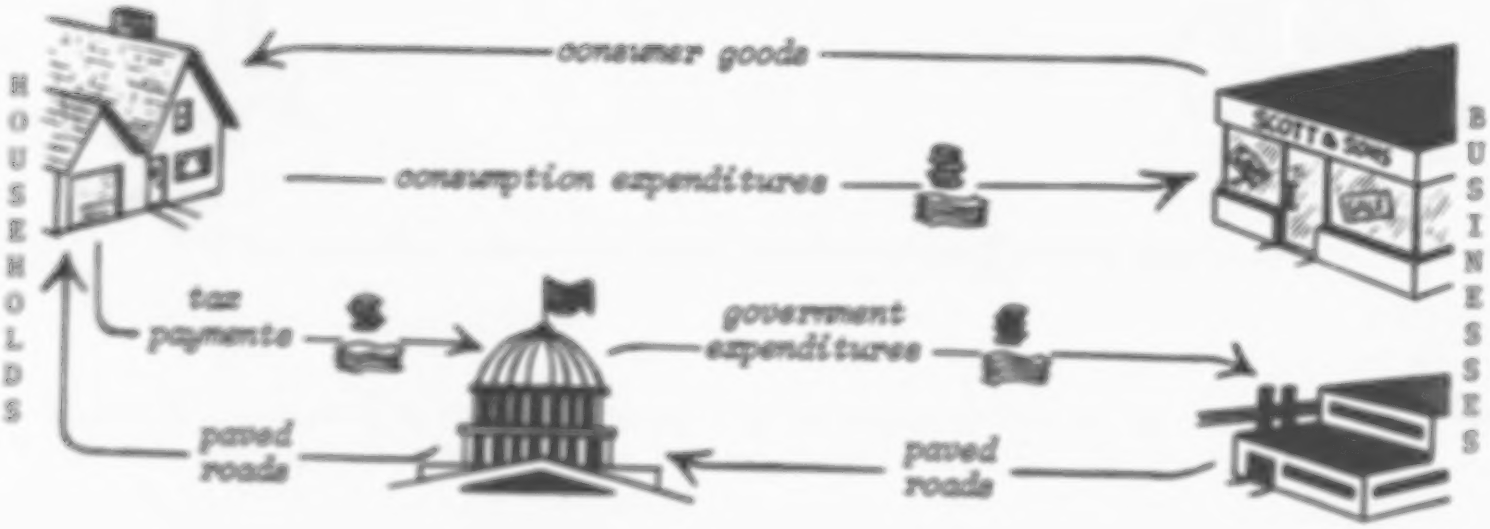
Suggested Activity: Have the children draw a circular flow diagram showing households earning income from the sale of their labor services to businesses. (See example below.)



Next, have them draw a circular flow illustrating Mother disposing of household income by purchasing consumer goods. (See example below.)



Now suppose that all families have agreed to have the dirt road in front of their homes paved and that they will provide government with the funds needed to improve the roads. Have children include government in their circular flow diagrams showing that households pay taxes to government, which uses this income to pay a road construction firm to pave the road. This firm uses the money income received from government to purchase the factors of production needed to do the job. So, by working through government, households give up some of their money income in the form of tax payments and are provided with a paved road (public good) in front of their homes.


HOUSEHOLDS
consumer goods
consumption expenditures
$
SCOTT & SONS
BUSINESSES
tax payments
$
government expenditures
$
paved roads
paved roads

Economic Generalization V

Households may save part of their money income.

OVERVIEW

This generalization focuses on the concept of saving--why we save and how saving affects our consumption of goods and services. Until this time we have assumed that a household uses its money income for two purposes--paying taxes and purchasing consumer goods and services. With the introduction of saving we have several ways to use this income. We can pay taxes, purchase goods and services, and save.[*] Let us review what we mean by household money income. The money income a household receives consists of payments--wages and salaries, rent, interest, or profit--for the services of the factors of production.

First we must define saving and then ask what saving implies about our consumption of goods and services. Saving is that part of current money income remaining after taxes have been paid and after goods and services have been purchased. When a family saves part of its income, it is forgoing present consumption for future consumption. That is, it purchases fewer goods and services now, thus increasing its ability to purchase goods and services in the future. Why do families do this?

There are several reasons for saving. A family may wish to save now so it can satisfy important wants in the future. One example would be saving for a vacation next year. A longer range example is saving for retirement, old age, or for the purpose of leaving an inheritance to your family. Another example is saving so that unexpected needs for money can be met in the future, such as medical expenses resulting from an unforseen illness or accident.

It is interesting to look at the connection between the sources of money income and the ways in which money income is used. We have seen in past generalizations how families receive income by selling their productive services and how their income consists of wages and salaries, interest, rent, profit, and transfer payments. Just as the form in which we receive income is determined mainly by the type of productive service we sell, what we do with our income determines where it flows. After the government has received our tax payments, that part of income spent on present consumption flows to business through the purchase of goods and services, and the remainder--saving--is reserved for future consumption.

An important decision to be made when we consider saving as an alternative to consumption is what part of our income we will save. A family receives a

certain limited money income. The first thing it usually does is pay taxes. After taxes have been paid there is a certain amount left over which may be used for purchasing consumer goods and services now or saved and used at some later date. We know a consumer's wants are unlimited and that he must make decisions as to which goods and services he will purchase with this limited income.

---

[*] Households also can use part of their money income to make voluntary contributions--for example, to churches, Red Cross, cancer fund, Boy Scouts.

When saving is considered as an additional way to use income, another decision is required. This decision concerns what part of a family's income should be spent now and what part saved and spent at some future time. Since we have examined already some of the reasons for saving, we can see why people will postpone present consumption for the purpose of a higher level of future consumption.

We can now ask: What happens to that part of our income which we do not spend (which we save)? First of all, there are many forms in which we may hold our savings. We may keep it in a safe place at home, we may put it in a bank, or we may purchase stocks and bonds.

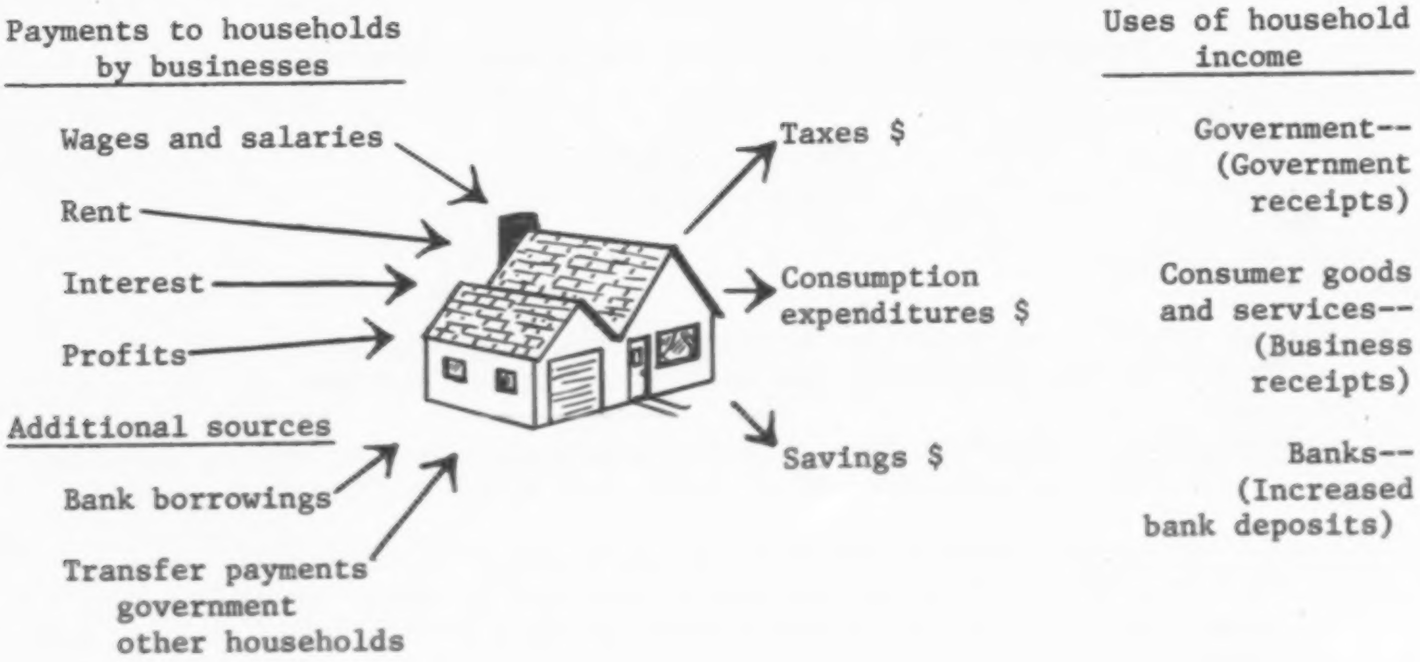
Interest payments were mentioned earlier as a reward for saving. If we keep our money at home, we do not receive interest payments. If savings are kept in the bank, however, we receive interest payments in exchange for the use of our money. The bank uses our money and acts as a financial intermediary. It takes the money which people deposit as savings and makes loans to families or businesses whose present needs for goods and services exceed the money they have to purchase them.

The bank may lend money to a businessman to buy a machine required for the production of goods. The bank also may help your family by loaning them money to buy a house or a car. Whenever a family or business borrows money from a bank, it agrees to repay the money at some designated time.

We have seen that when a family saves part of its income, it reduces current consumption in favor of increased future consumption. On the other hand, borrowing money from the bank has the opposite effect on consumption. If a family borrows money from the bank to buy a car, it increases current consumption at the cost of future consumption because in the future the money borrowed from the bank will have to be repaid. So, saving increases future consumption at the cost of present consumption; borrowing increases present consumption at the cost of future consumption.

In summary, a household receives money income in the form of wages and salaries, rent, interest, and profit. These payments for the services of the factors of production are paid by the businesses to households. These factor payments are not the only source of funds for households. They also may receive transfer payments or borrow money from the bank. The following sketch shows sources of money income going to families or households and how they dispose of their income. A household does three things with its income: saves part, spends part on goods and services, and spends part on taxes.

SOURCES AND USES OF HOUSEHOLD INCOME


Payments to households by businesses
Wages and salaries
Rent
Interest
Profits
Additional sources
Bank borrowings
Transfer payments
government
other households
Taxes $
Consumption expenditures $
Savings $
Uses of household income
Government--
(Government receipts)
Consumer goods and services--
(Business receipts)
Banks--
(Increased bank deposits)

Economic Generalization V

Households may save part of their money income.

TEACHING GUIDE
Second Grade

Economic Vocabulary

Business (firm) - an organization engaged in the buying and hiring of resources and the production and sale of goods and services.

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair, and babysitting.

Dissave - to spend more than one's current income during any period of time.

Household income - the total of the money payments received by household members primarily for the performance of services or for the production of goods.

Interest - the price of borrowed money; money payments made by households or banks for the use of money.

Loan - money borrowed from a person or bank.

Money - anything which is generally acceptable in exchange for goods and services. Among other functions, money serves as a medium of exchange and as a standard of value. The money supply includes checking accounts, coins, and paper bills.

Price - the value of a good or service stated in money terms.

Productive resources (factors) - natural resources, labor, and tools and equipment that are used in the production of goods and services. In economic jargon, all natural resources are collectively called land; and the tools, equipment, buildings, etc., are called capital. The three--land, labor, and capital--are referred to as the factors of production, because all productive effort requires one or more of these factors.

Saving - the portion of current income which is not paid out in taxes or in the purchase of consumer goods.

Savings - the total accumulation over a period of time of a household's financial assets.

Taxes - involuntary payments of money from individuals and businesses to government.

Economic Concepts

1. Household saving is that part of current money income which is not used to pay taxes and is not spent on consumer goods and services.

Review: It has been noted that a family's income is received mainly from the sale of productive services furnished by the household to business. In turn, most of this household income is spent on the purchase of consumer goods and services. It has also been noted that part of household income must be paid to the government in the form of taxes. Now another dimension needs to be added to the use made of income by a household: Households may decide to save a portion of their income.

Household saving should be regarded simply as that part of current household income which is not used to pay taxes and is not used to purchase consumer goods. Assuming tax payments are made, the more that a household spends on consumer goods, the less it can set aside as saving. Or, to put it another way, the more a given household saves at a particular point in time, the less it spends on consumer goods.

Saving, then, reduces the amount of income available to a household for the current purchase of consumer goods. However, it increases the amount of consumer goods which can be purchased in the future by that household. The specific reason why people save varies widely, but the general reason is that of increasing future consumption at the cost of present consumption. We may have a specific objective in mind like a new car, a college education, a vacation, or retirement. We may be saving for a "rainy day." In any case, saving decreases present consumption and permits increases in future consumption.

The income saved by a family may be held in various forms. The activity in this section stresses bank saving. Children should recognize that banks are usually willing to pay monetary rewards (interest) to persons depositing money in savings accounts. Income saved might also be in a tin can, or in a mattress; or it might be used to purchase stocks, bonds, or life insurance. The main thing to be emphasized is that saving is that part of household income which remains after taxes have been paid and consumer goods and services have been purchased.

Families also may spend more than their current income by borrowing from banks. However, such loans must be repaid in the future. In addition, interest must be paid to the bank for the use of the money. Children should understand that families will have less of their current income to spend on consumer goods and services during the period in which the loan is being repaid.

Suggested Activity: This activity attempts to draw together many of the main ideas found in past generalizations and to add those related to saving. We want to confront the children with a realistic problem which illustrates the economic choices involved in the use of limited income. To do this, we will create a store which sells real goods ranging in price from 1¢ to 25¢, and a bank where children can deposit their savings or dissave by borrowing 4¢ at a time.

Before the activity starts, two letters should be sent to parents. Have the children write a short note requesting 25¢ for their unit on the use of income. The teacher should attach a letter explaining the activity that is about to begin. (See the sample letter on page 133.) Every child should participate in this activity, so if, for some reason, a child cannot bring the 25¢, obtain it from the PTA or school fund.

After the teacher has collected the money, children should be assigned work activities for which they will be paid wages of 5¢ per day for a weekly income of 25¢. Tasks could be assigned to individual students or to groups of students who could pick up paper inside or outside the school, clean erasers and blackboards, etc. Some students could earn their wages by helping to set up and operate the store and the bank for this activity.

The teacher should obtain different kinds of goods which children usually want (gum, candy, toys, comic books), ranging in price from 1¢ to 25¢. Initially, only one of each of the more expensive items (15¢, 20¢, or 25¢) will be needed since the children will not have sufficient income to purchase them until later in the week. Children who are saving part or all of their income should be asked to indicate which of the more expensive items they intend to purchase. However, as is the case for the typical consumer, each child should be given the right to change his mind as the week progresses. If possible, the teacher should purchase items from a store which will allow the return of unsold items.

The children can then assume major responsibility for establishing the store by setting it up, naming it, and operating it. With the teacher's assistance, they can attach the proper price tags to each item and display all the goods, using pictures and slogans to advertise if they wish.

The children who operate the business should keep daily records of what items are sold, how many of each are sold, and the price at which they are sold. Sub-total receipts should be determined for each of the items sold, and these sums should be added to arrive at total business receipts for each day. The teacher should take care of the funds at the end of each day. The form which might be used to keep business records is noted on the following page.

<table>
<tr><td colspan="4">Name of Business ___________</td></tr>
<tr><td colspan="4">Monday</td></tr>
<tr><td>List of Items</td><td>Price</td><td>Quantity</td><td>Receipts</td></tr>
<tr><td>1.</td><td></td><td></td><td></td></tr>
<tr><td>2.</td><td></td><td></td><td></td></tr>
<tr><td>3.</td><td></td><td></td><td></td></tr>
<tr><td>4.</td><td></td><td></td><td></td></tr>
<tr><td>5.</td><td></td><td></td><td></td></tr>
<tr><td>6.</td><td></td><td></td><td></td></tr>
<tr><td>7.</td><td></td><td></td><td></td></tr>
</table>

Identical charts should be provided for Tuesday through Friday.

Next, have the children select a committee which will name, set up, and operate a bank. These children will be responsible for keeping records of amounts saved and borrowed and the amounts of interests paid and received. An example of how these forms might be drawn is noted below:

Bank Name ____________ Student Saving

Student Names	Monday		Tuesday		
	Saving	Withdrawal	Saving	Withdrawal	Etc.
1.					
2.					
3.					
4.					

Bank Name ____________ Student Borrowing

Student Names	Monday		Tuesday			
	Borrowed	Interest	Borrowed	Interest	Repayment*	Etc.
1.						
2.						
3.						

---

*Note: There must be a "repayment" column for Tuesday through Friday.

After the money has been collected, the goods have been purchased, the school store and bank have been established, and the children have completed the first day of work, the teacher should pay each child his wages of 5¢. Then, it should be explained that the children have the following choices:

a. They can spend their current income of 5¢ at the school store.

b. They can save part or all of their income and add this to the income which they will earn during the week. This will allow them to purchase more expensive items later in the week.

The children should be informed that they will receive 1¢ interest as a reward for each nickel which is in the bank on Friday, the day interest is paid. Each child should receive a booklet indicating the total savings they have deposited in the bank. Children operating the bank should keep these books up to date. An example of information contained in these booklets follows:

Saving Book

Student's Name ____________

Day	Saving	With-drawals	Total Savings	Interest	Savings plus Interest
Monday					
Tuesday					
Wednesday					
Thursday					
Friday					

c. They can borrow 4¢ at the bank and spend this as well as their daily income. However, if they borrow 4¢ from the bank, they must repay the 4¢ plus 1¢ interest cost on the following day. No child may borrow on two consecutive days or on the final day of the game. Each child should receive a booklet, similar to the one following, which the bankers should keep up to date.

Borrowing Book

Student's Name ____________

Day	Loan	Interest on Loan	Total Owed to Bank	Payment on Loan and Interest
Monday				
Tuesday				
Wednesday				
Thursday				
Friday				

All the children's accounts must be closed by the end of the week, the period covered by this activity. All loans plus interest must be repaid to the bank and choices must be made and income and savings spent since saving was undertaken in order to permit greater consumption in the future.

Finally, each child should receive a form on which he can record his income, purchases, savings, borrowings, and interest payments. The children will need the teacher's assistance with this form on the first day, but children working in small groups should be able to make the proper entries on subsequent days. An example of how this form might be drawn is noted below:

Student's Name ____________

	Daily Income	Withdrawals from Savings	Borrowing	Interest Earned on Savings	Repayment of Loans	Interest Paid on Loans	Purchases	Savings
Monday								
Tuesday								
Wednesday								
Thursday								
Friday								

After the completion of each day's activity, a period should be set aside for discussion. Appropriate points to be discussed would include:

Have the children note what they did to earn their income. Have them also discuss what various members of households do to earn income.

Have the children note how they decided to use their income. How much was spent on consumer goods and how much was saved?

Have those children who did not spend all of their income on consumer goods explain why they saved part of their income.

Suppose one of the children borrows 4¢ and spends this as well as his 5¢ of daily income. How does the child benfit by borrowing? (he can buy a more expensive item and can consume a greater amount of goods) What are the disadvantages of borrowing? (he must pay back the amount borrowed plus interest the next day which means he has less income then to buy goods and services)

Suppose the children have to spend part of their daily income on a brother, sister, or a friend. How would this affect the number and price of items they purchase for themselves? (fewer and lower priced items would be purchased) How would this affect their saving? (saving would tend to decrease) Would they expect a household with eight members to make different saving and spending choices than a household with four members? (yes) Why? (see the above)

Suppose that a student is ill and cannot work for two days. Suppose he is not paid if he cannot work. What will happen to his income? (it will be less than if he had not been sick) How might this affect his spending and saving decisions? (his spending and saving will be less than if he was not ill) Suppose that a worker in a household becomes ill or loses his job. What will probably happen to household income? (it will be less) saving? (less) spending? (probably less) borrowing? (probably more) spending past saving? (will probably increase)

Suppose that each child has two jobs and earns 10¢ a day or 50¢ a week. How would this affect spending and saving decisions? (will be more money income to spend and save; both saving and spending will tend to increase) Would this also be the case for a household? (yes)

(Sample letter to parents)

Dear Parents:

Our class is about to undertake an activity which will draw together many of the ideas learned in our study of economics. We want to confront the children with a realistic problem which illustrates the economic choices involved in the use of limited income and emphasizes that we can never have all the goods and services we would like to have.

In order to carry out this activity, we would like each child to bring 25¢ which will be used to pay him 5¢ wages each day of the week. We will set up a store where items with prices ranging from 1¢ to 25¢ will be on sale each day. There will also be a bank established where the children can deposit any savings or can borrow a few cents at a time.

As the children earn their income, they will have to decide: 1) whether to spend all or part of it, and what they will purchase, or 2) whether they will save to purchase more expensive items later in the week. They may also borrow and thus may consume more than 5¢ will buy in one day; however they will have to use the next day's income to repay the loan and interest charge.

Your cooperation in this project will help to make it meaningful to the children. I ask that you do not lecture your child about how to spend his income at the school store and that you refrain from buying your child items that will be available in our store. Each child must learn that the cost of what he buys is the other things he can no longer buy because he has spent his limited income.

Sincerely yours,

Your teacher

SECTION IV

Third Grade

Economic Generalization I

Because of limited income, consuming units must choose which of their many wants for goods and services they will satisfy through purchases in the market place.

OVERVIEW

Most of the many wants of consuming units (households) for goods and services are satisfied through purchases in the market place. Since the money income of consuming units is limited, choices must be made as to which wants for goods and services will be satisfied.

The first generalization focuses on the major economic ideas that:

1. All wants for goods and services cannot be satisfied.
2. There is a need for choice-making.

At this point a distinction should be drawn between economic and noneconomic wants. First, economic wants are limited to those wants satisfied through the use of goods and services which are produced with scarce resources. Such goods as sunshine, air, and ocean water normally are not scarce goods and thus do not present an economizing problem. Second, many wants cannot be satisfied through the acquisition of scarce goods and services. Such wants are for nonmaterial things. They include the desire for friendship, a happy marriage, or religious satisfaction. Economists, as social scientists, are not concerned with how nonmaterial wants are satisfied.

The distinction between goods and services also must be made clear. Goods are tangible objects--such as toys, soap, and shoes--while services are productive acts which satisfy our wants but do not result in tangible objects. For example, a doctor, a dentist, a repairman, and a shoeshine boy all perform services. When we buy and use such goods or services, we act as consumers.

We know everybody has many wants which can be satisfied with goods and services, but in general what else can be said about them? First, as you look at all members in society you become aware of the great variety of wants that exist. It seems difficult, if not impossible, to conceive of listing all the wants of people. Among a host of other factors, age differences, sex differences, climatic differences, educational differences, and social differences help to account for the differences in people's wants. Second, most wants can be satisfied by a variety of goods or services. The desire for travel can be satisfied by different forms of transportation services: horse, bicycle, motorcycle, car, train, bus, boat, airplane, etc. Equally long lists of goods and services can be made which will satisfy our wants for food, clothing, shelter, and entertainment. Third, the list of people's wants for goods and

services seems to be an unending one, and it seems impossible to provide all the goods and services required to satisfy all of people's wants for them.

Ample evidence exists to quickly convince us that there are not enough goods and services to satisfy all the wants of everyone. The typical consuming unit (household) faces an almost immediate restraint when it attempts to satisfy its wants through the acquisition of goods and services. Families are limited by their money income, for only those goods and services can be obtained which can be paid for. Since money income is limited and since money prices must be paid to obtain goods and services, income and prices are restraining forces limiting the number and kinds of goods and services which can be acquired.

Because of income and price restraints, consuming units cannot satisfy all of their wants for goods and services. Since all wants cannot be satisfied and since wants vary in importance, families must choose which wants will be satisfied. The particular choices made will be determined in large part by the size of the family income, the prices of different goods or services, and the ability of different goods or services to satisfy the wants.

Wise choice-making is necessary in order to obtain the most satisfaction possible from the purchase of goods and services. The opportunity cost of goods and services purchased is not their money price but the other goods and services which could have been purchased with the limited money income. Choices must be made in order to purchase those goods and services which provide the consuming unit with the most satisfaction in relation to the amount of money income spent for them.

Economic Generalization I

Because of limited income, consuming units must choose which of their many wants for goods and services they will satisfy through purchases in the market place.

TEACHING GUIDE
Third Grade

Economic Vocabulary

Business (firm) - an organization engaged in the buying and hiring of resources and the production and sale of goods and services.

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair, and babysitting.

Consuming unit - a person or group (household) which uses goods or services.

Freedom of consumer choice - consumers' liberty--within a broad range of legal and social sanctions and within the limits of their household income--to buy that collection of goods and services which they feel is most appropriate to satisfy their wants.

Household income - the total of the money payments received by household members primarily for the performance of services or for the production of goods.

Labor force - those persons sixteen years old or over, working or seeking work. Total labor force less armed forces equals civilian labor force.

Money - anything which is generally acceptable in exchange for goods and services. Among other functions, money serves as a medium of exchange and as a standard of value. The money supply includes checking accounts, coins, and paper bills.

Opportunity cost (real cost) - the other goods and services which are forgone when a particular good or service is purchased or produced.

Price - the value of a good in money terms.

Production - the process of combining productive resources in order to make goods and services.

Economic Concepts

1. People living in cities spend much of their time producing goods and services required to satisfy, directly or indirectly, the many wants of members of the community.

A city may be viewed as a huge productive apparatus designed to turn out a large number and variety of goods and services for use by members of the community. The vast magnitude of the task of satisfying city dwellers' wants for goods and services is indicated by examining the large number of businesses which produce many different types of goods and services and employ large numbers of workers.

Suggested Activity: To help the children see that many people are employed in the production of goods and services in the city, we will use information pertaining to their own families. The children should be able to supply the information requested but, if not, it might be obtained from the school records. We want to discover the number of adults in each family who are earning income, where they work, and what kinds of goods and services they produce.

The teacher should tabulate the results while discussing the following questions:

How many households have two members? three members? four? five? more than five?

How many families have one income earner? How many have more than one?

Of the income earners, how many are men? How many are women?

Note the number of firms or organizations.

Note the different kinds of goods or services produced by these firms.

Do these firms produce goods or do they produce services?

Indicate some of the different kinds of tasks that workers perform.

Are many of the goods or services produced by members of the households sold to people living outside Des Moines, Iowa? Do households in Des Moines purchase goods and services produced by firms outside the city?

As the above questions are discussed, the teacher should emphasize the great variety of tasks involved in producing many goods and services needed by families in a city. The teacher also should emphasize that information obtained from a small class of students in a restricted neighborhood provides only a partial view of economic activities undertaken in a city.

2. Even though a great number and variety of goods and services are produced within a city, the supply still falls short of satisfying the many wants of members of the community for goods and services.

Given the great number of productive activities undertaken by workers in the community and given the vast number and bewildering assortment of goods available in stores, it is easy to see why children and many adults find it difficult to understand why they cannot satisfy all of their wants for goods and services. The first and most apparent reason that comes to mind is the fact that households must operate with a limited income. (In the next generalization we will discover why household income is limited, but at this point, we will just accept the fact that it is.)

People's wants are unlimited, and limited income prevents them for purchasing all the goods and services necessary to satisfy their wants. As some wants are satisfied, others become important. Still other wants are continual; for example, if you have just eaten dinner, does that mean you will never want more food? Even though vast quantities and varieties of goods and services are produced in the United States, there can never be enough produced to satisfy all the wants of all the households. The gap is even more evident within one particular city where many goods and services purchased by members of the community are produced in other cities throughout the country.

Suggested Activity: Have the children think about all the things they would like to have and everything their families want.

Do you have all the goods and services you want? (no) Why not? (limited income)

Are there some goods and services which members of your family would like to have but are unable to purchase? (yes) Why? (limited income)

Now have the children imagine that everyone can go into stores and take the goods and services they want without paying for them.

Would there be enough goods to satisfy all the wants of all the people? (no)

After all the goods have been taken, would households still want more goods? (yes)

If all the food were taken from the supermarkets this morning, would there be any for people to take this afternoon or tomorrow? (no)

3. Since all wants for goods and services cannot be satisfied, households must choose which wants will be satisfied.

Children should be aware that most, if indeed not all, households cannot satisfy all of their many wants for goods and services. They should understand that households satisfy most of their wants for goods and services through purchases from business and that households must have money income to pay prices charged for these goods. Children should be exposed to three dimensions which influence households as they determine which of their wants for goods and services they will satisfy: tastes, income, and prices.

a. Household income available to purchase goods and services is limited relative to the kinds and amounts of goods and services desired. Therefore, households cannot satisfy all of their wants, and since some wants are more important than others, households must decide which goods they will purchase. Obviously, households with more income can satisfy more wants than can households with less income. For example, a movie actor, a star baseball player, or the president of a major corporation may purchase an expensive house with a swimming pool and have several high-priced cars to use as transportation in between his trips by airplane. He also is able to afford the finest clothes, expensive furniture for his house, and the choice of an expensive school for educating his children, as well as provide them with trips to Europe and other parts of the world. On the other hand, households existing on a teacher's income will be able to satisfy fewer wants for goods and services and satisfy them in different ways. They will tend to live in inexpensive houses located on smaller lots and do their swimming in the public pool. They may buy fewer and less expensive pieces of furniture, buy fewer and less expensive cars, visit Yellowstone Park or the Chicago Museum, and travel by automobile rather than by plane.

b. Even for households which have the same income, variation will exist in the kinds and amounts of goods and services purchased. This situation exists because of differences in tastes of individuals and the freedome of individuals to determine their own pattern of consumption.

For instance, three children might have a dime to spend as they please. Given differences in tastes, one child might buy a strawberry ice cream cone; the second child might buy a chocolate ice cream cone; and the third child might buy a pencil, a candy bar, or save the dime. The important point is the fact that each child, given his tastes, is the best judge of which use of the dime will provide him with the most satisfaction.

c. Children also should recognize the important role played by prices in choice-making. For example, suppose that a family wishes to satisfy its want for food. Suppose also that the family has set aside a certain amount of income for the purchase of food products. Now the family must decide what kinds and amounts of food to purchase. For instance, should it buy steaks or hamburger or a combination of the two? Should it buy butter or oleo? Should it buy caviar or fish sticks? Suppose that the members of the family have no strong preference between steaks and hamburgers, between butter and oleo, and between caviar and fish sticks. Then which of these foods are they likely to choose? (the less expensive of the two) Do differences in prices affect their choice? (yes)

Suggested Activity: Have each child make a list of goods which he does not have but would like to have. Have them do this for some other member of their family as well. The list will indicate that many wants of households for goods and services are not satisfied. Put price tags on the goods wanted by children. Then provide children with money income (play money) of varying amounts but which is insufficient to purchase all the goods and services wanted. Have the children decide which good(s) they would purchase. Following this activity, the questions noted below may be discussed:

Do all members of a family want additional goods or services? (yes) Do they all want the same kinds of goods or services? (no) Why do different people want different goods and services? (different tastes because of age, sex, etc.)

Does the size of the family income influence which wants will most likely be satisfied? (yes) Why? (since all wants can't be satisfied, they will be satisfied in order of importance and the larger the family income, the more wants that will be satisfied)

Does the size of a child's allowance or the amount of family income influence the kinds and amounts of goods and services purchased? (yes)

Do prices of goods and services influence the kinds and amounts of goods purchased by an individual? (yes) by a family? (yes; the prices of cars influence the number of cars a family has and the type--Ford, Plymouth, Chevrolet, Cadillac, Lincoln, Chrysler)

4. When income is used by a household to buy a particular good, other goods which could have been purchased with this income must be forgone by the family since family income is limited in relation to family wants.

Children should begin to understand that the opportunity (real) cost of a good purchased is not its money price but the alternative goods which could have been purchased with this money. While money enables people to purchase many different kinds of goods, the amount available to us is limited relative to our wants for goods and services. Thus, when we as individuals, families, or governmental officials decide to use money income to purchase one good or service, we have, in effect, decided to forgo some other good or service.

Suggested Activity: Children could discuss what might be a reasonable sum for their weekly allowance. They also might note possible goods which the family, considered as a whole, may have to give up to provide children with this allowance every week. After children have decided what the hypothetical allowance will be, they can decide which of the goods on their lists (developed above) they might be able to purchase. With price tags on these goods, they will be forced to make choices as to which good or service they will purchase. They should be aware that the act of choosing means they have one good and cannot have some others. That is, the opportunity cost of choosing (purchasing) a particular good is the other goods they no longer can purchase.

The teacher may discuss the following questions:

Even if all ice cream cones cost 10¢, why do some people buy vanilla while others buy strawberry? (differences in preference)

Suppose that a person likes both candy bars and ice cream cones and that the price of each is 10¢. If that person has only 10¢ to spend on candy bars and ice cream cones, does he have to make a choice? (yes) Why? (he doesn't have enough money to buy both a candy bar and an ice cream cone) If he buys the ice cream cone, what can't he buy (the candy bar) What is the opportunity cost of the ice cream cone? (the candy bar he could have bought instead)

Economic Generalization II

Scarce resources are required for the production of goods and services.

OVERVIEW

This generalization focuses on the major economic idea that before goods and services can be consumed they must be produced, and their production requires the use of scarce and versatile productive resources. The two key terms here are scarcity and versatility of productive resources

We began with the understanding from Generalization I that because of limited income and prices of consumer goods, consumers cannot satisfy every want; therefore, consumers need to make decisions concerning which goods and services to purchase. Before consumers can purchase any of these goods and services, however, they must be produced.

Basically, the production of goods and services involves the use of scarce productive resources such as labor, buildings, natural resources, tools, machinery, and management. For example, even in the case of the "little red schoolhouse," the production of educational services requires the use of managers (school board and administrators), labor (teachers, custodians, etc.), natural resources (paper, pencils, crayons, chalk, etc.), and capital goods (buildings, blackboards, desks, furnace, etc.).

What exactly is meant by scarce productive resources? The idea of scarcity means that there are not enough productive resources (natural resources, capital goods, labor, and managerial knowhow) to produce all the goods and services wanted by consumers. Therefore, just as choices have to be made concerning which goods and services you as a consumer will purchase for consumption (because not all of your wants can be satisfied), choices must be made as to which goods and services will be produced with the limited resources. Obviously, there are not enough productive resources to produce all the goods and services everyone wants.

Resources are versatile as well as scarce. That is, most resources can be used in the production of more than one good or service, and most goods or services can be produced with different combinations of resources. For instance, assuming the requisite skills or the ability and willingness to acquire them, the labor services of a woman or man may be utilized as an elevator operator, teacher, writer, factory worker, etc. Again, the important point is that labor services are scarce and if they are utilized in the production of one good or service, they are not available for the production of alternative goods and services. Much the same case exists for other scarce productive factors. For instance, land may be used as a building site, for growing corn or other crops, or for a playground. These are but a few examples of how a given productive resource may be used in the production of a variety of goods and services.

It is also important to realize that most goods or services can be produced with different combinations of productive resources. The production of a given amount of corn involves the use of land, labor, and capital; but this amount of corn may be produced with either a lot of labor, a little capital, and land--or a little labor, a lot of capital, and land. As is true of corn, many goods may be produced with different proportions of land, labor, and capital.

Since there are not enough productive resources available to produce all the goods and services wanted by everyone (scarcity) and since most productive resources can be utilized in the production of many different goods and in different proportions (versatility), wise choices or decisions must be made concerning what goods and services will be produced and how resources will be used in their production. For whenever a resource is committed to the production of a particular good, we should realize that other goods which could have been produced with this resource must be forgone. This is an illustration of the opportunity cost of using resources to produce a particular good.

Most of us would agree that land, labor, capital, and managerial knowhow should be combined so as to produce the greatest quantity of goods and services which will best satisfy both the individual and collective wants of consuming units. Resource misuse or waste occurs when a given resource is used to produce a good which is of less importance than other goods which could have been produced with this resource. Misuse or waste of resources also occurs when a given good is produced with resource combinations which involve the use of relatively more scarce and valuable resources rather than the use of relatively more abundant and less valuable resources.

Economic Generalization II

Scarce resources are required for the production of goods and services.

TEACHING GUIDE
Third Grade

Economic Vocabulary

Business (firm) - an organization engaged in the buying and hiring of resources and the production and sale of goods and services.

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair, and babysitting.

Consuming unit - a person or group (household) which uses goods or services.

Efficiency - producing the greatest amount of goods and services wanted by consumers with a given amount of productive resources.

Household income - the total of the money payments received by household members primarily for the performance of services or for the production of goods.

Money - anything which is generally acceptable in exchange for goods and services. Among other functions, money serves as a medium of exchange and as a standard of value. The money supply includes checking accounts, coins, and paper bills.

Opportunity cost (real cost) - the other goods and services which are forgone when a particular good or service is purchased or produced.

Production - the process of combining productive resources in order to make goods and services.

Productive resources (factors) - natural resources, labor, and tools and equipment that are used in the production of goods and services. In economic jargon, all natural resources are collectively called land; and the tools, equipment, buildings, etc., are called capital. The three--land, labor, and capital--are referred to as the factors of production, because all productive effort requires one or more of these factors.

Scarcity - the condition which exists because of the fact that people's wants for goods and services exceed the capacity of resources to produce them.

Economic Concepts

1. Many goods and services are produced in the city. All such production involves the combination of scarce resources.

   There are many demands for productive resources in a city. Goods and services must be produced prior to consumption, and they are produced to satisfy the many wants of households for goods and services. Some goods and services are produced within the home; some are produced by government; and the great majority are produced by businesses. But regardless of who does the producing, scarce resources are necessary for it to be undertaken, for goods and services are nothing but the land, labor, and capital directly or indirectly embodied in them.

   Suggested Activity: In the activity accompanying Generalization I for the third grade, the children discovered the many different places their family members worked to earn income as well as some of the goods and services they helped to produce. From this point, the discussion can be extended to deal with the many resources required for all the production.

   Have the children talk to their parents to find out some of the major resources employed by the businesses for which they work. It can be concluded that most production involves labor, land (for plants, parking lots, natural resources), and capital (buildings, machinery, raw materials). However, vast differences may be seen in the necessary types of labor skills, kinds of machinery and buildings, and types of land required as well as the amounts of each of these productive factors employed. One obvious example within Des Moines, Iowa, would be the large amounts of rubber employed by Firestone and the large supplies of paper used by the Meredith Publishing Company. (Teachers may use local industries for their examples.)

   What resources are used by the businesses your family members work for?

   Do they all employ the same kinds of labor? (no) land and natural resources? (no) capital? (no)

   Do all the businesses use the same amounts of land? (no) labor? (no) capital? (no)

   For this generalization, we can concentrate on the building of a bridge in Des Moines. This bridge will be built by a private firm but will be paid for by the government. The children can do research to discover the many productive factors required to build a bridge--land, many kinds of labor, cranes, bulldozers, trucks, steel, concrete, etc. Reports to the class and displays will demonstrate that many productive factors are required for the production of a bridge.

2. Productive resources are both scarce and versatile. In other words, there are not enough resources to produce all the goods and services wanted by consumers, and the resources available have many alternative uses.

   There is a limited amount of resources available for production. If a resource is employed in producing one good or service, it is not available for the production of other goods and services. Since the amount of resources is limited but people's wants for goods and services are not, we say that resources are "scarce" relative to the demands for them. In addition to the scarcity of resources, their versatility is important. That is, there are many possible uses of every resource. Land can be used for growing crops, as a building site, parking lot, or playground, while labor is used in the production of all goods and services. Furthermore, a particular good or service can be produced in more than one way--with various combinations of resources--such as a lot of labor and little capital or a lot of capital and little labor.

Suggested Activity: Now that we have discovered which productive resources must be combined to build a bridge, we can deal with alternative uses of these resources as well as other resources that might be used to build a bridge.

Using the information gathered earlier by the children, we can talk about other businesses that could employ the resources needed to build the bridge. Charts can be made to list or picture their many alternative uses.

Are bridges the only structures that require steel? (no) concrete? (no) trucks? (no) labor? (no)

Where else could these resources be employed? (steel--buildings, cars, machinery and equipment, etc., concrete--roads, sidewalks, pools, etc., trucks and labor--many, many uses)

Can a resource be used to produce two different things at the same time? (no)

Is it possible for us to produce everything we want all at once? (no) Why not? (not enough resources)

Now have the children imagine what other resources might be used to build a bridge. For example, wood could be used instead of steel and concrete, or men with shovels could replace bulldozers, and men with ropes and pulleys might be used instead of cranes.

If men are employed instead of bulldozers, what resource is being used more? (labor) Which is being used less? (capital)

Do you think this would be a good way to get the job done? (not to build a bridge--the job is too big and many men would be needed if bulldozers weren't used)

3. Since productive resources are both scarce and versatile, wise choices--considering efficiency and opportunity cost--must be made as to which goods and services to produce and how the produce them.

Society, like individual consuming units, cannot have everything it wants. Therefore, decisions must be made as to which goods and services will be provided and which combinations of resources will be used in their production. Since the opportunity cost of any good or service is the alternative goods or services forgone, production is most efficient (that is, involves the least cost) when the greatest amounts of goods and services wanted most by consumers are produced. Efficiency requires the use of more abundant resources for production rather than relatively scarce resources. For example, in the United States, labor is relatively more scarce (and so much more expensive) than capital. Therefore, production employing a lot of labor and little machinery is generally less efficient. For if resources were combined differently, a greater total amount of goods could be produced with those resources, and each good could be produced more cheaply.

Suggested Activity: Using the information on the alternative uses of the bridge-building resources and the variety of combinations of resources that might be employed to produce a bridge, we should emphasize the necessity of making choices before any production occurs. We then want to make the point that the real (opportunity) cost of the bridge is the alternative goods or services which could have been produced with these resources. This holds true for all other goods produced--the opportunity cost is the alternatives forgone.

Can we produce all the alternative goods and services? (no) Why not? (limited resources)

If the resources are required for the production of many goods and services, but we don't have enough resources to produce all of them, does a choice have to be made? (yes)

If there are several ways to produce a good, such as a bridge, do choices have to be made? (yes)

What other goods besides the bridge could be produced with these resources? (roads, buildings, etc.)

By using these resources to build the bridge, what can't be produced? (roads, buildings, etc)

What is the cost of the bridge? (the alternative goods or services forgone--the roads or buildings, etc.)

Returning to our men versus bulldozers example, we want to try to convey the idea that some resources are more abundant than others. Because of this, production is generally more efficient or less expensive and less wasteful when more abundant productive resources are employed instead of scarcer resources. In the United States, capital is more abundant than labor, so production using relatively more capital and less labor is less expensive and more efficient. (This would not be true in a country with an overabundance of labor.)

Using the following figures, have the children answer the questions below:

It costs $200 to rent a bulldozer and hire an operator for one day ($25 per hour). It takes 20 men with shovels to do the work of the bulldozer. Each man is paid $20 for one day's work ($2.50 per hour).

How much would it cost to rent a bulldozer and hire the operator for one day's work? ($200)

How much would it cost to employ men with shovels instead of the bulldozer? ($400)

What else could the men be producing if they weren't employed in this manner? (any good or service that requires labor--if they have the necessary skills) If they are moving dirt for the bridge, can they produce these goods or services? (no)

What must be given up if the men are moving dirt for the bridge? (the other goods and services they could be producing) Is this a wasteful use of human resources? (yes)

If we used the bulldozer for the bridge and employed the men in the production of other goods and services, do you think we would be able to produce more goods and services? (yes) Would there be as much waste of resources as there would be if we used men instead of bulldozers for the bridge? (no)

Say we just wanted to level a small patch of ground for a garden behind our house. If one man could do the job in a few hours, would it be wise to rent a bulldozer and hire an operator to do it? (no)

APPENDIX D
Third Grade

Specialization: *Specialization and the division of labor increase the quantity of goods and services that can be produced with a given amount of resources.*

This appendix focuses on the division of labor and its effect on the amount of goods which can be produced.

We have learned in previous generalizations that productive resources are necessary for producing goods and services, that they are limited, and that they may be used in various ways. Therefore, it is important that we use these resources in the most efficient manner. At the same time it is possible to discover new resources and to find new, more efficient ways of using existing resources. One important productive resource is human labor. We shall see how specialization and the division of labor enable this human labor to be used most efficiently to produce a greater quantity of goods and services.

Each person has different interest, abilities, and knowledge. The division of labor takes advantage of the special qualifications of an individual. That is, a person works in an area or does a job which best suits his interest and abilities. One of the easiest ways to see how the division of labor works is to examine the average family household. Each member of a family usually has certain tasks which he performs for the benefit of the whole household. Father's job may be to mow the lawn; mother's, to cook the meals; and sister's, to make the beds. If there were no division of the work, each member would--among other things--have to cook his own meals, make his own bed, and wash his own dishes. It is easy to see, then, how dividing these jobs among the various members of the family affords a more efficient way of performing tasks within the home.

Businesses that produce goods and services also specialize and make even more use of the division of labor. They usually produce a specific good or a limited number of goods and leave the production of other goods and services to other businesses. This in itself is specialization. In addition, they divide the different tasks performed in the production of these few goods among various workers. That is, instead of each man producing a complete product, each man works on one specific part of a product. For instance, in a shoe factory one man may be responsible for putting heels on shoes, one for cutting the leather, and another for sewing the parts together. Rather than each man in the factory making a whole pair of shoes, each man performs a part of the job. As a result, more shoes are produced.

Why? One man may be efficient and fast at one part of the job and another at a different part. By having each man perform the task at which he is fastest and best, more higher quality shoes may be produced than if each man had to

perform every task involved. In addition, when the tasks involved in the production of a good are divided among several workers, those workers become faster and more efficient by continually performing that specific task. An automobile factory is a more obvious example. Here there are engines to be made and assembled, seats to be upholstered, and cars to be painted, as well as many other jobs. It is not likely that one person would be extremely efficient at all of these tasks, but by dividing the tasks among many people, cars can be produced more efficiently.

What do we gain, as a society, from the division of labor and specialization? First of all, through specialization and the division of labor we are able to produce more goods of higher quality. This results from the most efficient use of human labor. Each person performs a task he is trained for and is able to do both quickly and efficiently. Instead of a good produced entirely by one person, we have a good which is produced by several persons--each doing a specific part in the production, with each person more proficient than the others at the specific task he performs. These various people working together can produce more goods, better goods, and produce them faster than if each man produced the entire good by himself.

Another important result of specialization and the division of labor is the greater dependence of one person on others. The family which produces a limited number of the goods and services it desires depends upon businesses and other persons working outside the home to produce those goods and services which it does not produce itself, but which must be purchased from businesses.

Since specialization also occurs in the business world, dependence arises within and among businesses. With different workers within a factory performing different tasks, the amount of final goods and services produced depends upon the coordination of the efforts of all the workers. Because different businesses produce different goods or types of goods, the total amount produced is influenced by the coordination among businesses.

Economic Vocabulary

Division of labor - the separation of production into various tasks performed by different workers, allowing specialization and the development and use of higher and more productive human skill.

Efficiency - producing a maximum amount of goods and services with a given amount of resources or producing a given amount of goods and services with a minimum amount of resources.

Specialization - the concentration of effort on a particular aspect of production (job or product) permitting persons and regions to use to best advantage any peculiar differences in skill and resources.

Application to Third Grade

Much specialization takes place within the city. Workers specialize in particular jobs while business firms specialize in the production of particular goods or types of goods. An important point here is that in the production of goods and services different types of specialization require different combinations of scarce resources. Nearly all types of production involve land, labor, and capital; however, different qualities as well as different quantities of each are required.

Examples of specialization can be seen in the city of Des Moines, Iowa. Firestone--specializing in the production of rubber products--uses a different combination of resources than does the Meredith Publishing Company--specializing in the production of printed material. While Firestone needs rubber from rubber trees, nylon, cotton, large furnaces, molding machines, workers who are able to perform the tasks involved, as well as many other productive resources, Meredith Publishing Company must have printing presses, paper, ink, writers, artists, printers, editors, etc. If Firestone and Meredith produced similar products, they would require similar resources; but since both specialize in different types of products, they use different types of resources. Hence, because of specialization, vastly different combinations of resources are required by different businesses.

Furthermore, when a company specializes in a particular line of products, it can produce them more efficiently than if it produced "a little bit of everything." With Firestone producing rubber products and Meredith producing printed material, skills and processes are developed and perfected allowing for faster production and greater output than if one company attempted to produce both types of products.

Specialization and division of labor, then, lead to more efficient production. Society benefits by gaining greater amounts of goods and services from a given amount of productive resources.

To help the children understand specialization, the teacher may use the following points for a discussion:

Ask the children what types of businesses are in the city where they live. What types of products are produced? Do the firms specialize? (probably) in what? (the products they produce)

What types of resources are required by the businesses? Does each business require the same amount of each resource? (no) Does each business require the same kind and quality of each resource? (no) Why? (the production of different products requires different amounts, kinds, and qualities of resources)

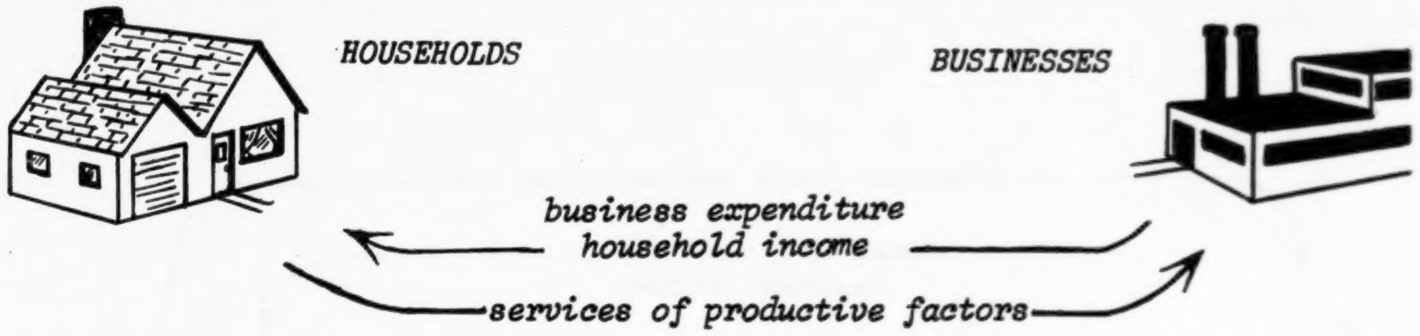
Could one business produce all of these products? (no) If one did try to produce everything, do you think it could produce as much as when different businesses produce different products? (no)

Economic Generalization III

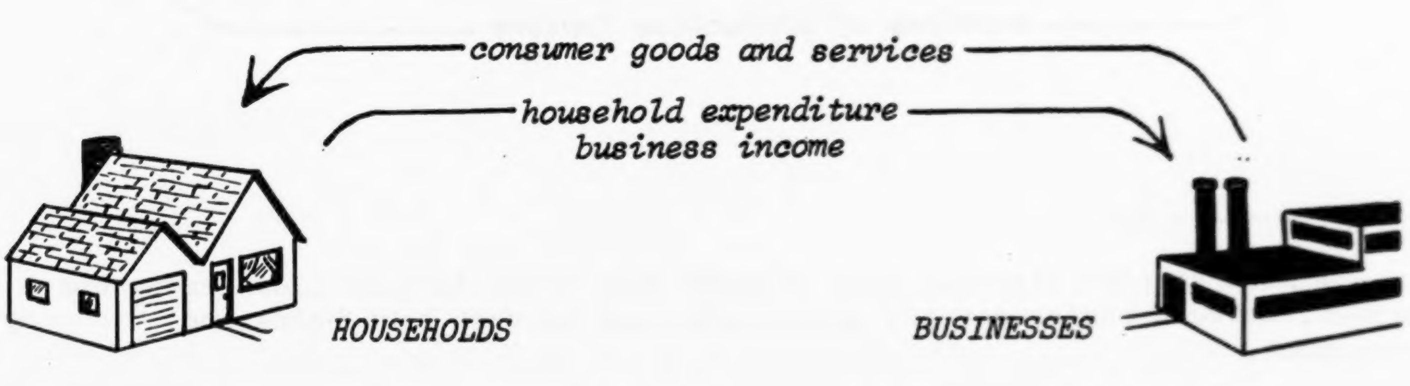
Households earn money income by selling the services of their productive resources to businesses and, in turn, use household income to purchase goods and services from businesses.

OVERVIEW

Business organizations are responsible for producing most goods and services desired by households. As has been noted, the production of goods and services requires the use of scarce productive factors. If businesses are to produce goods and services, they must have some means to obtain the services of productive factors. In the United States, most productive factors are privately owned by households and if businesses are to command their services, they must offer households a reward. Businesses do offer rewards in the form of prices paid to households for the use of their productive factors. In turn, the prices paid for productive services become the major source of household income. These relationships can be seen below:


HOUSEHOLDS
BUSINESSES
business expenditure
household income
services of productive factors

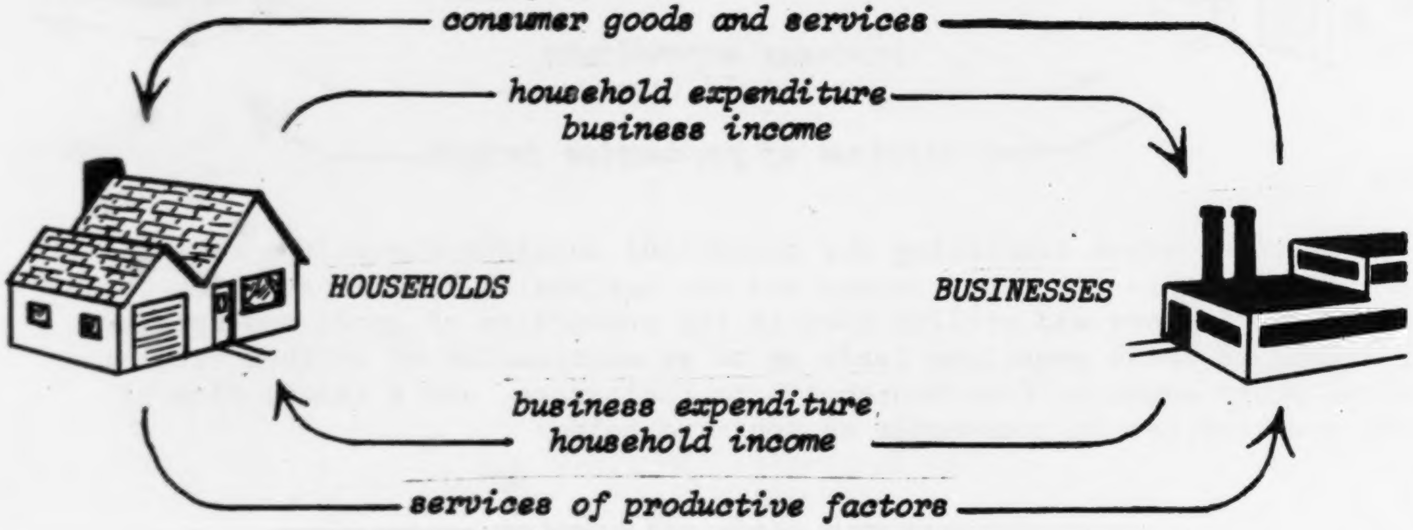
Questions arise concerning why households should exchange the services of productive factors for money income and why businesses should pay money income to purchase factors and utilize them in the production of goods and services. The answer to these questions leads us to an examination of another flow--the flow of money payments from households to businesses, and a return flow of goods and services to households as depicted below:


consumer goods and services
household expenditure
business income
HOUSEHOLDS
BUSINESSES

Households are willing to sell the services of their productive factors to businesses for money income since this money income can be used to buy goods and services desired by households. Fundamentally, households accept money income in exchange for their productive services because they know this money income can be exchanged for goods and services.

Business owners are willing to hire productive factors and use them to produce goods and services for sale to households because, by doing this, owners of businesses expect to earn income for their own household. If businessmen are to be successful in achieving this end, they must use the resources to produce those products which can be sold to households for a price which will cover payments made to the factor owners as well as to provide a reasonable return to the businessman for his time, effort, and risk involved in organizing and operating the business.

The circular flow diagram (below) depicting households and businesses presents a simplified picture of the operation of the United States economy. This diagram represents a beginning step in explaining the dual role of households as buyers of consumer goods and services from business organizations and as suppliers of the services of productive factors to businesses.* In this diagram, the services of productive factors may be viewed as flowing from households to business units in exchange for money income which enables households to purchase goods and services produced by businesses. In turn, as households purchase goods and services, businesses are provided with money income which becomes available for the purchase of productive resources from households.



---

*A more complex circular flow diagram also would include flows among businesses, between businesses and government, and between households and government.

Economic Generalization III

Households earn money income by selling the services of their productive resources to businesses and, in turn, use household income to purchase goods and services from businesses.

TEACHING GUIDE
Third Grade

Economic Vocabulary

Barter - the direct exchange of goods and services without the use of money.

Business (firm) - an organization engaged in the buying and hiring of resources and the production and sale of goods and services.

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair, and babysitting.

Household income - the total of the money payments received by household members primarily for the performance of services or for the production of goods.

Interest - the price of borrowed money; money payments made by households or banks for the use of money.

Market place - an organized situation (not necessarily an actual place) permitting buyers and sellers to deal with one another. Productive resources, goods, and services are traded, generally with money acting as the medium of exchange.

Medium of exchange - something which is used in buying and selling goods, services, and productive resources. Money functions as a medium of exchange.

Money - anything which is generally acceptable in exchange for goods and services. Among other functions, money serves as a medium of exchange and as a standard of value. The money supply includes checking accounts, coins, and paper bills.

Price - the value of a good or service expressed in money terms.

Produce - to combine productive resources in order to make goods and services.

Productive resources (factors) - natural resources, labor, and tools and equipment that are used in the production of goods and services. In economic jargon, all natural resources are collectively called land; and the tools, equipment, buildings, etc., are called capital. The three--land, labor, and capital--are referred to as the factors of production, because all productive effort requires one or more of these factors.

Rent - money payments for temporary use of a house, land, or some other property.

Standard of value - a "yardstick" for measuring the relative worth of goods, services, and productive resources. Money functions as a standard of value.

Wages - money paid to a person in exchange for his labor services.

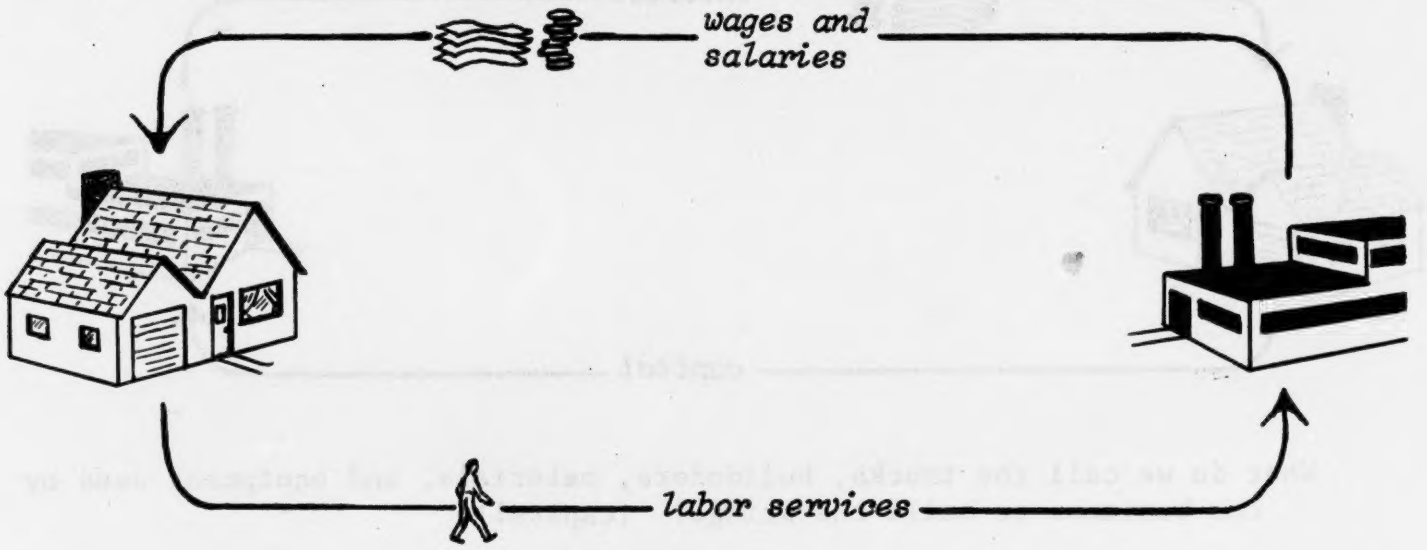
Economic Concepts

1. Important relationships link households and businesses. Households own productive resources and sell their services to businesses in exchange for money income.

The important points to be understood in this concept are: 1) that most resources are owned, in our economy, by households and 2) that most household income is received in return for providing businesses with the services of scarce productive resources which are used in the production of goods and services. This income can be in the form of wages and salaries (in exchange for labor), rent (for the use of land), or interest (for capital); and such exchanges make up the "factor market."

The amount of income a household earns in the factor market largely depends on the quantity and quality of productive factors it is able to sell in the market. Furthermore, it must be remembered that wages and salaries, rent, and interest represent business expenditures as well as household income. Other sources of household income include gifts, winnings, and payments from government that are received but are not in exchange for the services productive factors.

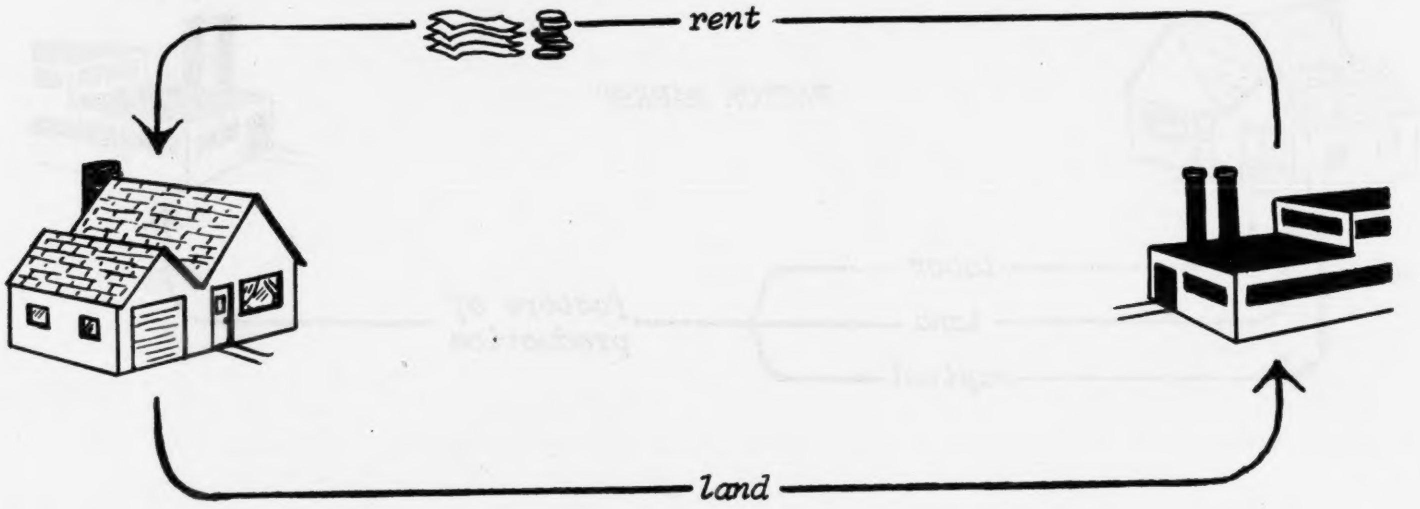
Suggested Activity: In this generalization, we will continue with our bridge-building project. Although the government pays a private business to build the bridge, the business is the one that directly hires the factors of production. As we have seen, land, labor, and capital are needed to construct the bridge. Using a series of flow diagrams and some questions, (which can be found on the following pages) we can show that businesses pay money prices in order to hire these factors from households who own them. Each of these payments is a form of income to the household and represents an expenditure to business. After working with these diagrams, the children should be able to label the flows themselves.



What do households receive in exchange for their labor services? (wages and salaries)

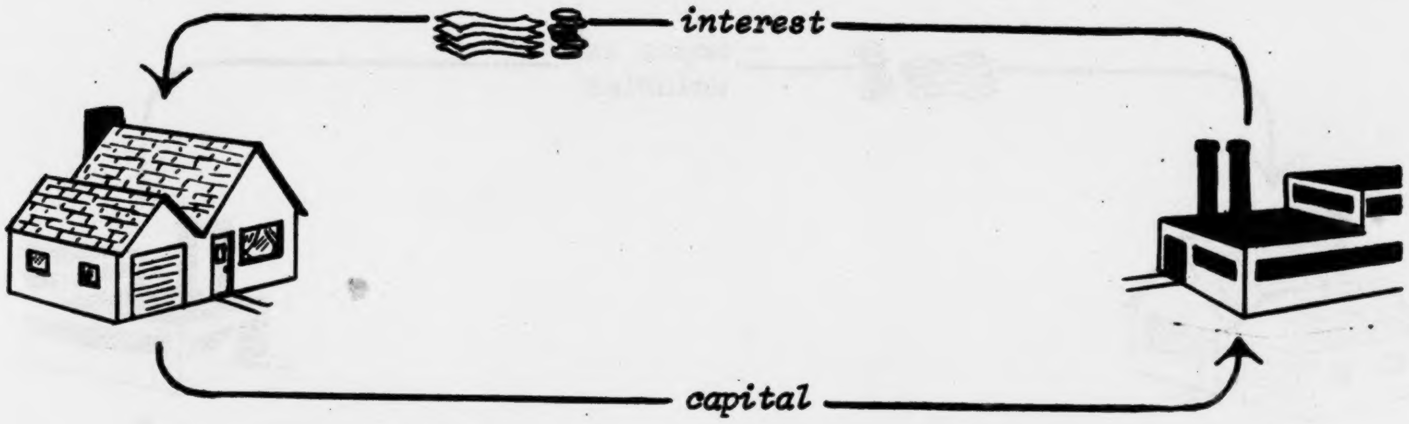
If a second member of a household goes to work for a business, what will happen to household income? (should increase) if a household member learns an additional skill? (it may increase)

Besides the land needed for the bridge itself, the construction company must have land on which to put its own building and equipment.



What must the business pay for the use of the land? (rent)

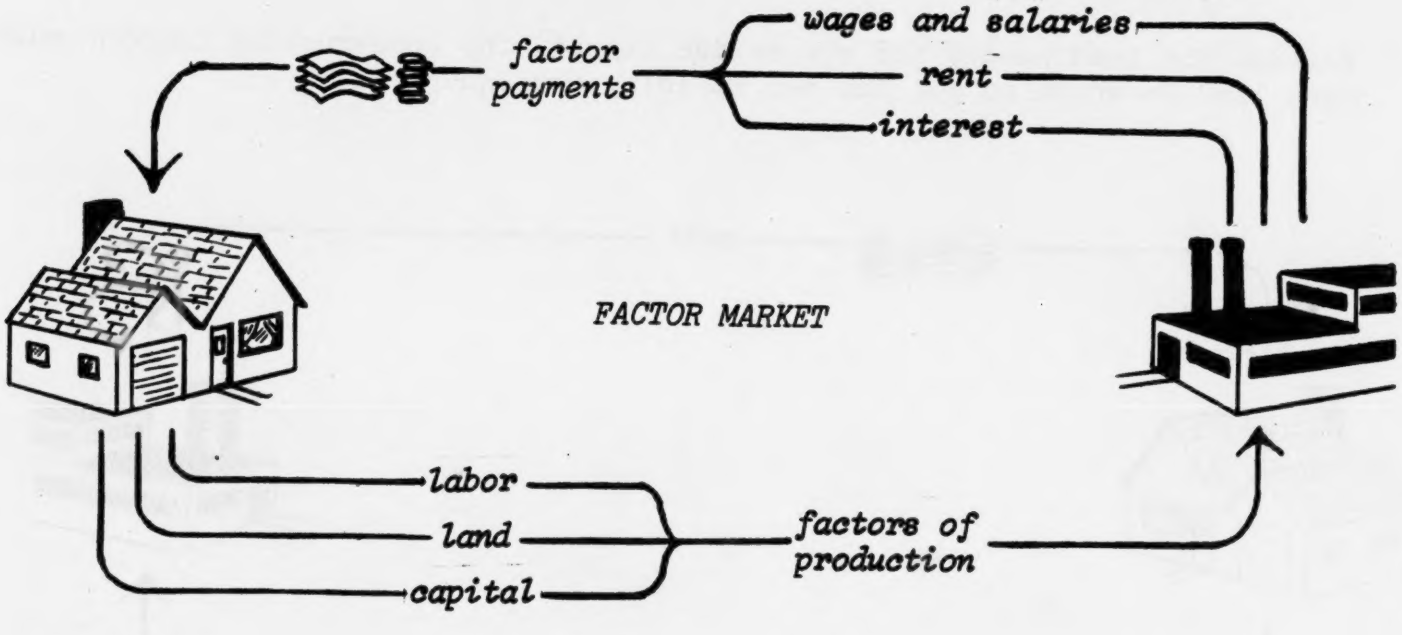
Will household income be larger or smaller if the household decides to rent a piece of land it owns? (larger)


interest
capital

What do we call the trucks, bulldozers, materials, and equipment used by the business to build the bridge? (capital)

What must be paid to households for the money capital which the business uses to purchase these capital goods? (interest)

We can now combine these flows into one large representative flow and call it the factor market:


factor payments
wages and salaries
rent
interest
FACTOR MARKET
labor
land
capital
factors of production

What are the factors of production? (land, labor, capital)

Who owns the factors of production? (households)

Who wants to hire them? (businesses) Why? (in order to produce goods and services)

What must be paid to obtain the services of productive factors? (wages and salaries, rent, and interest)

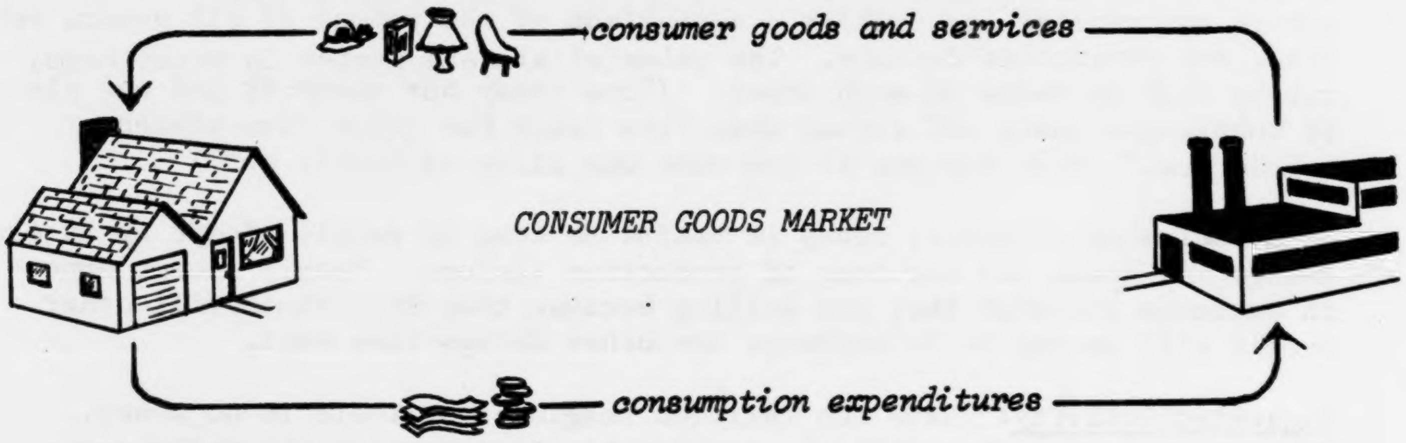
Do these payments represent an expenditure for anyone? (yes--businesses) an income to anyone? (yes--households)

2. Households use their money income to purchase the goods and services that businesses produce and offer for sale.

Our primary concern in this concept is with the "consumer goods market," that is, with the exchanges of household income for goods and services produced by businesses. Households want to earn money income so that they can purchase goods and services that they do not produce in the home. We have seen that businesses produce these goods and services by combining the resources they purchase from households.

Just as businesses must pay money prices (wages and salaries, rent, interest) in order to obtain the productive factors, households must pay money prices in order to obtain goods and services from businesses. The amounts and kinds of goods and services a household is able to purchase from business largely depend upon the amount of income received through the sale of the services of their productive factors to businesses. So, business income from the sale of goods and services also represents household expenditure.

Suggested Activity: We have seen the major sources of household income--wages and salaries, rent, and interest. Now we can use a flow diagram to depict the primary uses of household income--the purchase of goods and services in the "consumer goods market."



Why do households want money income? (in order to purchase goods and services from business)

How do they obtain money income? (by selling the services of their productive factors)

How do they use money income? (to purchase goods and services)

What do businesses receive in exchange for the goods and services they sell? (money income)

Why do businesses want to sell goods and services? (to earn money income)

What do businesses do with the money income they receive? (purchase the services of productive factors in order to produce more goods and services)

3. Money plays an important role in the exchange of productive factors and goods and services among households and businesses.

We have been talking about how households and businesses earn and use money income. We now want to study money itself and to learn why it is so essential to the smooth operation of our economy. First of all, we should understand that, except for misers, people don't want money for its own sake--it can't be eaten, worn, or lived in. But, we do want money for what it stands for, for what it can do. That is, we want money because we can express the value of goods and services in terms of money and exchange it for goods and services we want.

If money did not exist, people might be paid in pigs, cows, horses, or other goods and services. Such payments would create problems, however, if someone received, say, a pig he did not want to consume. Then he would have to find someone else who wanted a pig and had something else, say clothing, to exchange. The exchange would still be difficult since the two men would have to determine how much clothing the pig is worth so an even trade could be made. A moneyless economy such as this is known as a barter economy.

Now we can examine the two most important functions of money--a standard of value and a medium of exchange. As a standard of value, money acts as a common denominator and enables a comparison of the values of all goods, services, and productive factors. The value of all are stated in money terms rather than in terms of each other. ("one candy bar costs 5¢ and one piece of bubble gum costs 1¢" rather than "one candy bar costs five pieces of bubble gum." What happens if you want one piece of bubble gum?)

As a medium of exchange, money is useful as long as people accept it in exchange for goods and services of productive factors. People accept money in exchange for what they are selling because they know that still other people will accept it in exchange for other things they want.

Suggested Activity: Have the children imagine that there is no money. Without any money, how will the construction company pay the workers employed building the bridge? (Our study of money will involve the children's imaginations and a series of questions.)

What would happen if the company gave each worker a piece of the bridge to take home? Would there still be a bridge? (no)

What could the workers do with the piece of bridge?

Do you think a worker could exchange pieces of his portion of the bridge for food, clothing, or other goods and services?

Do you think he would have trouble finding people who would trade food or clothing for a piece of a bridge? (yes)

What would happen if he couldn't find anyone who would take the piece of bridge in exchange for some other good or service? (he couldn't obtain the goods and services he wants)

Let's say that although each worker is "given" a piece of the bridge, the bridge is left intact. The workers then decide to make the people who use the bridge pay as they cross it. Since there isn't any money, each traveler would have only whatever he was paid--whatever he helped to produce. Ask the children what their fathers and/or mothers produce and point out that this is what their family would have to exchange (or pay) for the use of the bridge.

Can you imagine all the different things that people would use to pay for using the bridge? How would the workers know who should get what and how much? (they wouldn't--they would just have to decide that among themselves)

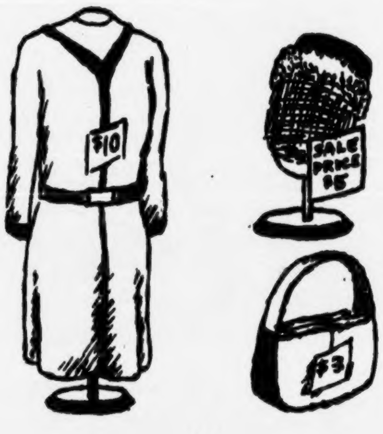
What happens if a worker gets goods or services he does not want and does not get goods and services he wants? (he will be unhappy)

Will he still have to find somebody to trade with? (yes)

We can conclude that money is very useful and important. But, we don't want children to think that we want money for itself:

Why do people want money? (so they can exchange it for goods and services) Do they want to eat it? (no) wear it? (no) live in it? (no) If we couldn't exchange money for goods and services we want, would we still want money? (no) If a particular storekeeper would not take money, but would accept only baseballs in exchange for food, would the customer need money or baseballs in order to purchase food? (baseballs)

Money is a measure of value and a medium of exchange.



measure of value

medium of exchange

Economic Generalization IV

Some of people's wants for goods and services are satisfied through government.

OVERVIEW

This generalization focuses on the idea of wants best satisfied by government, why they are best satisfied by government, why members of a society pay taxes, and what they receive in return.*

We begin with a quick review. Families receive money income for the use of their productive resources (factors of production). These payments are in the form of wages and salaries, interest, rent, and profit. In addition to these payments, a family may receive gifts of money, borrow from a bank, or draw on past savings, thus enabling them to spend more on consumer goods than their current money income would allow.

A family may use its money income in three ways--for purchasing consumer goods and services, for saving, and for paying taxes. We also know that families have many wants, not all of which they can satisfy. They must make choices concerning which ones they will satisfy and which ones they will not. Some of a family's wants can be satisfied by goods and services produced in the home and some by using money income to purchase goods and services from businesses, but others are best satisfied by government. In this generalization we are concerned with those family wants best satisfied by government.

Why are some wants best satisfied by government? Certain services which are important to society--such as national defense or lighthouses--usually will not be provided by private businesses. Why? Businesses are only willing to provide those goods and services which can be sold for a price in the market place. While businesses could produce the lighthouse to warn ships of impending dangers--and all shipowners would benefit--how would the owner of the lighthouse be able to charge a price for this service? Even if shipowners are unwilling to pay for the service, once the lighthouse is in operation, it is impossible to prevent them from using this service. Thus, lighthouses usually are owned and operated by government.

Other goods and services best provided by government are available on the private market, can be made subject to price payments, and can be purchased by an individual. Why then are they best satisfied by government? Most members of society feel that all people should receive a minimum amount of certain

goods and services. Public education through high schools, certain health services such as school nurses, and community sanitation programs are examples. While these services may be purchased by individuals, not all persons would receive an education or adequate health services if they were not provided by the government. Some persons would not have enough money income to provide education or medical services for their children. Others, even though they have enough money, would not be willing to spend enough on education, health, and sanitation. (By "enough" is meant that level which most members of society consider minimal.) The point is that while most members of a society feel there are minimal educational, health, and sanitation standards which should be met by all people, not all people would meet these minimal standards if they were left as the responsibility of each individual.

---

*Taxes are used for other purposes and are important policy instruments but this point shall not be discussed here.

What are some of the wants best satisfied by government? Fire and police protection represent wants that an individual family would find very difficult to fulfill. Many families can use the same fire station and firemen for fire protection and the same police force for police protection. Therefore, it is not efficient for a family to provide its own private twenty-four-hour police and fire protection. A family seldom experiences a house fire large enough to merit a call to the fire station. If a large fire should occur, however, a family would want and need immediately the services of experienced firemen and a fire engine. If fire and police protection are provided by government, all families receive the same protection. They may call upon the police or upon firemen for protection at any time of night or day.

There are other wants which can be satisfied efficiently by an individual family but because of other reasons are best satisfied by government. One such want is that for education. Most families feel that education is important and that every child should be able to go to school. When schools are built and education is provided by government, every child has an equal opportunity to obtain an education through the high school level. If education were available on a private basis only, many children would be unable to obtain a high school education either because their parents would not have the money to send them or because their parents would not be willing to spend as much money on education as would be required. Therefore, if the members of a society feel it would be in their best interest to provide all children with an education, the best way to achieve this is through public education.

How does the government provide these various services to families? Goods and services provided by government are not free. Families pay for these services by paying their taxes. These taxes constitute a form of income to the government. The government then uses this tax money to pay for the goods and services it provides to members of society. The tax money the government spends goes mainly for the purchase of goods and services made available to members of the community as a whole. More specifically, it goes to the workers who provide those services, for purchasing the goods used by all people, and for payments to families unable to earn enough income to purchase minimum amounts of food, clothing, and shelter.

Those goods and services provided by government must be produced just as any good or service must be produced; this requires the use of productive resources. The government may do one of two things: 1) it may either purchase

goods and services from private businesses (the government usually hires private businesses to build post offices, schools, city halls, dams, highways, and other public facilities); or 2) it may produce the goods and services itself (government hires labor to provide many services, including those of teachers, policemen, firemen, postal workers, and many others). If it purchases them from private businesses, money income flows from the government to the private businessman in the form of price payments. If the government produces its own goods and services, money income still flows into the private sector but in a different form. In this case, money income goes directly to the workers employed in the production of the goods and services and to the owners of the capital and raw materials used in that production.

How do families decide exactly: 1) what goods and services will be provided by government, 2) how many goods and services will be provided by government, and 3) how much of their income will be paid to the government in the form of taxes? In addition, how are families assured of the availability of these goods and services? The answers lie in voting and in electing representatives. The members of a community elect representatives to make the actual decisions discussed above. These representatives or government officials voice the ideas and wants of the people who elected them, and in this way the members of society are represented in government. Some examples of elected representatives are mayors on the local level, governors on the state level, and Congressmen and the President on the federal level.

Next, we present the idea of opportunity cost associated with public goods or services provided by government. The taxes a family pays reduce the amount of family income available for the direct purchase of goods and services and/or saving by the amount of the taxes paid. This tax money collected by the government is then used to satisfy wants such as fire protection, police protection, public education, and national defense. The economic cost or opportunity cost of taxes is the alternative goods and services which could have been purchased or produced. That is, the opportunity cost of the taxes paid by members of society is the alternative goods and services which could have been purchased with that money had it not been paid to the government in the form of taxes.

Given scarce resources, the opportunity cost of governmental goods and services is the other goods and services which could have been produced with those resources. To the extent that additional resources are allocated to the public sector, more public goods and services will be available. However, relatively fewer resources will be available to the private sector, and relatively fewer private goods and services will be produced. Of course, the opposite conclusions would hold true if relatively more resources were allocated to the private sector rather than to the public sector.

The opportunity cost principle also operates within the public sector as well as between the public and private sectors. Assuming a fixed amount of resources available for the public sector, then the opportunity cost of a particular batch of public goods is the other public goods and services which could be produced with the given resources.

Economic Generalization IV

Some of people's wants for goods and services are satisfied through government.

TEACHING GUIDE
Third Grade

Economic Vocabulary

Business (firm) - an organization engaged in the buying and hiring of resources and the production and sale of goods and services.

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair, and babysitting.

Government income - the total of money payments received by government, generally in the form of taxes.

Household income - the total of the money payments received by household members primarily for the performance of services or for the production of goods.

Income taxes - involuntary payments of money from individuals to government, the amount of which is based on the amount of income earned by the individuals.

Money - anything which is generally acceptable in exchange for goods and services. Among other functions, money serves as a medium of exchange and as a standard of value. The money supply includes checking accounts, coins, and paper bills.

Opportunity cost - the other goods and services which are forgone when a particular good or service is purchased or produced.

Private goods and services - goods and services purchased by households directly from private businesses.

Produce - to combine productive resources to make goods and services.

Productive resources (factors) - natural resources, labor, and tools and equipment that are used in the production of goods and services. In economic jargon, all natural resources are collectively called land; and the tools, equipment, buildings, etc., are called capital. The three--land, labor, and capital--are referred to as the factors of production, because all productive effort requires one or more of these factors.

Property taxes - involuntary payments of money from households and businesses to local governments, the amount of which are based upon the value of property owned by the households and businesses.

Public goods and services - goods and services provided by government.

Sales taxes - involuntary payments of money from individuals to government when consumer goods and services are purchased. These taxes are generally paid to state governments.

Taxes - involuntary payments of money from individuals and businesses to government.

Economic Concepts

1. Households within the city consume many goods and services provided by government.

Households obtain most goods and services they consume by purchasing them from businesses. But, in addition to these goods and services, the different levels of government provide many important goods and services to households. Households, acting through elected governmental representatives, decide which goods and services each level of government will provide and how much of each will be provided. The military for national defense, highways, parks, schools, police and fire protection, and many other public goods and services are provided to all households in the United States by one or a combination of federal, state, and local governments.

Suggested Activity: Have the children discuss goods and services which they receive from government and which additional goods and services they would like to receive. Talking to their parents may help them get more ideas.

The children can then make hand puppets to represent citizens of the city and various governmental workers--the mayor, city manager, policemen, firemen, sanitation workers, school principal, teacher, etc. These puppets will be used in the activities for the concepts that follow.

2. Most households consider it socially and economically desirable for government to provide certain goods and services to households.

The majority of people feel that society is better off if everyone receives certain goods and services such as education and protection. Although many of these services can be produced by private businesses, many people would be unwilling or unable to purchase "enough" of them (the minimum amount society feels everyone should have). Still others are indivisible; that is, they cannot be divided and sold to individuals--once provided, everyone benefits from them.

The government provides these "public" goods and services to insure that they are equally available to everyone even though households do not pay equal taxes to government to enable provision of these goods and services.

Since society benefits if everyone is literate, an eighth grade education is required by law, and public schools are available to all through high school.

A stable society also depends on the establishment and preservation of law and order. Public safety requires several types of protection--police services, national defense, fire protection, and health protection--though medical and sanitation programs are two of the most important. If each household had to provide all of these services individually, most would not do so and thereby might endanger many other households. So, government provides to households many goods and services which, in addition to aiding each household, benefit society as a whole.

Suggested Activity: Using the puppets the children have made, we want to create a show such as the following:

Our show starts on a summer day, and people are out in their yards working. Suddenly, a siren is heard, and a fire truck and police car rush down the street. Everyone follows to see what is happening.

Mr. Johnson: My house is burning, my house is burning. Please help me!

Policeman Scott: All right, Mr. Johnson. We're here to help. Is there anyone inside the house?

Mrs. Johnson: No, everyone is out, but all our furniture and clothing are going to burn.

Fireman Jones: We'll save as much of it as we can, Mrs. Johnson. Just stand back.

Policeman Scott: O.K., everybody! Let's move back and give the firemen plenty of room to work.

(Several people start talking as the firemen fight the fire and the policemen control the crowds.)

Mr. Grant: It's a good thing the fire department got here so fast. If it hadn't, the whole house would have burned to the ground.

Mrs. Butler: Our house next door could have caught on fire, too.

Mrs. Alexander: I'm glad the government provides a fire department to protect all of us.

Mrs. Butler: Can you imagine what would happen if we didn't have a fire department?

Mr. Grant: Some people might buy their own fire truck and hire their own firemen--but, I couldn't do that!

Mr. Butler: I couldn't either. It would be too expensive. Anyway, we don't need a fire department very often.

Mr. Alexander: This is the first fire on this whole street that I can remember.

Mrs. Butler: Even if some people were able to provide their own protection, there would be so many others who couldn't. And that would endanger those who were protected, too.

Mrs. Alexander: You know, the same things are true for police protection, garbage and sewage disposal, health and safety inspections, our clean water supply, and education. If government didn't provide these services, many people would not be willing or able to provide them for themselves, and everybody would be hurt.

Mrs. Grant: Why don't we go to the next city council meeting and thank the mayor and the city council for providing the fire and police departments which protect our homes.

3. In order to provide goods and services to households, city government must have money income which is obtained primarily by taxing households.

We have seen that households must have money income in order to purchase goods and services from businesses. Likewise, government must have money income in order to provide households with goods and services--regardless of whether government purchases them from business or hires the productive factors and produces the goods and services.

Government obtains money income by taxing households which pay different kinds of taxes to various levels of government. Households pay taxes on their money income to the United States or federal government. This tax money is used, in part, to provide and maintain our military services--Army, Navy, Air Force, Marines--for our national defense. State governments receive the main part of their income by collecting sales taxes and/or income taxes and use much of this revenue to build and maintain state highways and to provide other state services.

Property taxes provide most local governments (city, county, and school district) with money income needed to provide police and fire protection, sanitation services, roads, parks, and schools (through school board and school district). So, tax payments made by households are not one kind but are many different kinds of taxes paid to several levels of government. In return, households receive many goods and services from each level of government.

Suggested Activity: The puppet show continues: The scene is city hall. The mayor, city manager, and council have just completed their regular business.

Council President Smith: Is there any other business before we adjourn?

Mr. Johnson: Mr. President, my friends and I have come to discuss a few matters with you. First, I would like to thank you and the fire department for the good job you both did last week on my home.

Mrs. Johnson: Yes, and we would like to know why the policemen and firemen have not received the increase in income they have asked for.

Mayor Carson: I think we would all like to pay our policemen and firemen better as well as hire more of them in order to protect our city as it should be protected. But, let me ask all of you a question first. What other goods and services would you like your government to provide?

Mr. Alexander: Well, I know of a number of streets that should be improved.

Mr. Butler: And a new bridge should be built on Sixth Street.

Mrs. Grant: I'd like to have the public auditorium air-conditioned.

Mrs. Butler: The city could use a couple more parks--one on the east side and one on the south.

Mrs. Grant: We are going to have to expand the airport very soon. The city is growing so fast that it will not be able to handle all the air traffic that will be required.

Mrs. Alexander: Our schools are getting awfully crowded, too. We'll need more classrooms and teachers within the next few years.

Mayor Carson: O.K., you have now asked for streets, bridges, air-conditioning for the auditorium, parks, airport expansion, and schools.

City Manager Bell: In order to provide such goods and services, the government must purchase many factors of production--land, labor, and capital.

Councilman Wagner: And, to purchase all of these, the government must have a money income.

Councilman Martin: Since our main source of income is taxes, the more goods and services you want government to provide, the more taxes you will have to pay.

Councilman Wagner: When you want more goods and services from the federal government, your federal income taxes will probably go up.

City Manager Bell: But, for the city to provide all the goods and services you want, property taxes would have to be raised.

(Continued in next concept)

4. Opportunity costs are involved in city government decisions regarding how much and what kinds of goods and services will be provided to households.

As we have seen previously, because of scarce resources, consumers cannot satisfy all of their wants for goods and services. If productive resources--land, labor, and capital--are employed in producing one good or service, they are not available to produce other goods and services. Furthermore, since the productive resources owned by each household are limited, the money income which each household can earn through the sale of their services is limited. Therefore, there is a limit on the amount of goods and services a household can purchase from businesses.

We say that there are costs involved as a result of these conditions. The opportunity cost (real cost) of producing a good or service is the other goods and services which could have been produced with the resources used. And the opportunity or real cost of purchasing a good or service is the other goods and services which could have been purchased with that limited income.

More of the same kinds of choices and costs are involved when government enters the picture. The range of choices open to households is now extended to include public as well as private goods. If households decide they want more public goods, that is, more goods provided by government, opportunity costs are involved.

In order to receive more goods and services from local government, households must be willing to pay increased taxes to provide government with sufficient income. As a result, households will have less of their money income left for consumption expenditures and/or savings. So, the opportunity cost of public goods or services is the private goods and services which could have been purchased instead. In addition, the opportunity cost of producing public goods or services is the private goods or services which could have been produced with the resources involved. And finally, as with the consumption expenditures of households, the opportunity cost of providing one public good or service is the other goods or services which government could have provided instead with its limited resources and income.

Suggested Activity: Continue the puppet show. The discussion between the council, mayor, city manager, and citizens continues.

Mrs. Butler: Higher taxes! Our taxes are so high already.
Mayor Carson: But, you're getting many, many goods and services. And, in order for government to provide more, it must have a greater income.
Mr. Butler: He's right. If we want more goods and services from government, we must give up more of our money income in taxes to government and purchase fewer private goods.
Mrs. Grant: Then, we're really making a choice between purchasing goods and services from businesses or receiving other goods and services from government.
City Manager Bell: Yes--you can say that the opportunity cost of obtaining goods and services through government is the other goods and services which could have been purchased directly from business.
Mayor Carson: That works the other way as well.
Mrs. Alexander: You mean that the opportunity cost of goods and services purchased from businesses is the other goods and services that government could have provided to households?
Mayor Carson: That's right.
City Manager Bell: And since the government doesn't have enough money income to provide all the goods and services you would like to have, you must also make choices.
Mrs. Grant: We can't have everything we want, can we.
Councilman Martin: No, money income is earned from the sale of productive resources. Since productive resources are limited, money income is limited, and government as well as households must make decisions and choices. And there is always a cost involved.
Mr. Alexander: I see. The opportunity cost of one good or service provided by government is the other goods and services that government could have provided instead. Government can't provide everything at the same time.

Mayor Carson: Do you understand our problems now?
Everyone: Yes, we think so.
Council President Smith: This meeting is adjourned.

(As everyone leaves, citizens talk among themselves.)

Mrs. Butler: Decisions, decisions......
Mrs. Alexander: Choices must always be made.

(THE END)

Discussion of the following questions may indicate how much the children have learned from our puppet show:

Why does government provide certain goods and services to households? (most people feel that everyone should have certain goods and services, and some households cannot or will not provide them for themselves because of expense or inability to obtain them in the market place)

What must government have in order to provide goods and services to households? (money income) Why does government need money income? (to purchase goods and services from businesses and to hire productive factors in order to provide goods and services to households) How does government get its income? (by taxing households and businesses.

Can government provide all the goods and services households would like to receive? (no) Why? (not enough income or resources) What must happen if government is to provide more goods and services to households? (government income must be raised by increasing taxes)

If taxes rise, will households be able to purchase the same amount of goods and services from businesses? (no, they won't have as much income left to spend) What do they receive instead? (more goods and services from government)

If households want to pay less taxes, what must they be willing to give up? (various goods and services provided by government)

Must choices be made by households and government? (yes) Why? (recause resources and, therefore, income are limited, and so we cannot have everything we want)

What is the opportunity cost of a good or service? (the other goods and/or services we could have had instead)

Economic Generalization V

Households may save part of their money income.

OVERVIEW

This generalization focuses on the concept of saving--why we save and how saving affects our consumption of goods and services. Until this time we have assumed that a household uses its money income for two purposes--paying taxes and purchasing consumer goods and services. With the introduction of saving we have several ways to use this income. We can pay taxes, purchase goods and services, and save.* Let us review what we mean by household money income. The money income a household receives consists of payments--wages and salaries, rent, interest, or profit--for the services of the factors of production.

First we must define saving and then ask what saving implies about our consumption of goods and services. Saving is that part of current money income remaining after taxes have been paid and after goods and services have been purchased. When a family saves part of its income, it is forgoing present consumption for future consumption. That is, it purchases fewer goods and services now, thus increasing its ability to purchase goods and services in the future. Why do families do this?

There are several reansons for saving. A family may wish to save now so it can satisfy important wants in the future. One example would be saving for a vacation next year. A longer range example is saving for retirement, old age, or for the purpose of leaving an inheritance to your family. Another example is saving so that unexpected needs for money can be met in the future, such as medical expenses resulting from an unforseen illness or accident.

It is interesting to look at the connection between the sources of money income and the ways in which money income is used. We have seen in past generalizations how families receive income by selling their productive services and how their income consists of wages and salaries, interest, rent, profit, and transfer payments. Just as the form in which we receive income is determined mainly by the type of productive service we sell, what we do with our income determines where it flows. After the government has received our tax payments, that part of income spent on present consumption flows to business through the purchase of goods and services, and the remainder--saving--is reserved for future consumption.

An important decision to be made when we consider saving as an alternative to consumption is what part of our income we will save. A family receives a

certain limited money income. The first thing it usually does is pay taxes. After taxes have been paid there is a certain amount left over which may be used for purchasing consumer goods and services now or saved and used at some later date. We know a consumer's wants are unlimited and that he must make decisions as to which goods and services he will purchase with this limited income.

---

*Households also can use part of their money income to make voluntary contributions--for example, to churches, Red Cross, cancer fund, Boy Scouts.

When saving is considered as an additional way to use income, another decision is required. This decision concerns what part of a family's income should be spent now and what part saved and spent at some future time. Since we have examined already some of the reasons for saving, we can see why people will postpone present consumption for the purpose of a higher level of future consumption.

We can now ask: What happens to that part of our income which we do not spend (which we save)? First of all, there are many forms in which we may hold our savings. We may keep it in a safe place at home, we may put it in a bank, or we may purchase stocks and bonds.

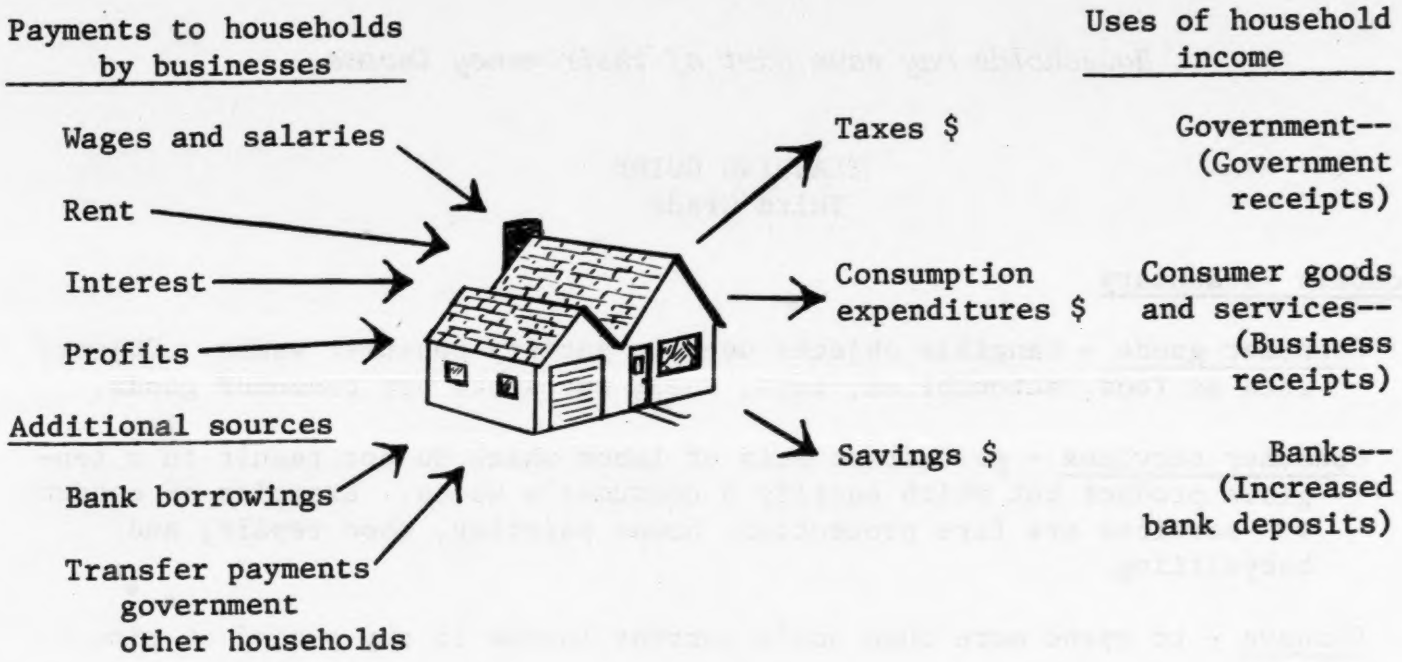
Interest payments were mentioned earlier as a reward for saving. If we keep our money at home, we do not receive interest payments. If savings are kept in the bank, however, we receive interest payments in exchange for the use of our money. The bank uses our money and acts as a financial intermediary. It takes the money which people deposit as savings and makes loans to families or businesses whose present needs for goods and services exceed the money they have to purchase them.

The bank may lend money to a businessman to buy a machine required for the production of goods. The bank also may help your family by loaning them money to buy a house or a car. Whenever a family or business borrows money from a bank, it agrees to repay the money at some designated time.

We have seen that when a family saves part of its income, it reduces current consumption in favor of increased future consumption. On the other hand, borrowing money from the bank has the opposite effect on consumption. If a family borrows money from the bank to buy a car, it increases current consumption at the cost of future consumption because in the future the money borrowed from the bank will have to be repaid. So, saving increases future consumption at the cost of present consumption; borrowing increases present consumption at the cost of future consumption.

In summary, a household receives money income in the form of wages and salaries, rent, interest, and profit. These payments for the services of the factors of production are paid by the businesses to households. These factor payments are not the only source of funds for households. They also may receive transfer payments or borrow money from the bank. The following sketch shows sources of money income going to families or households and how they dispose of their income. A household does three things with its income: saves part, spends part on goods and services, and spends part on taxes.

SOURCES AND USES OF HOUSEHOLD INCOME


Payments to households by businesses
Wages and salaries
Rent
Interest
Profits
Additional sources
Bank borrowings
Transfer payments government other households
Taxes $
Consumption expenditures $
Savings $
Uses of household income
Government--(Government receipts)
Consumer goods and services--(Business receipts)
Banks--(Increased bank deposits)

Economic Generalization V

Households may save part of their money income.

TEACHING GUIDE
Third Grade

Economic Vocabulary

Consumer goods - tangible objects used to satisfy consumer wants. Objects such as food, automobiles, toys, soap, and shoes are consumer goods.

Consumer services - productive acts of labor which do not result in a tangible product but which satisfy a consumer's wants. Examples of consumer services are fire protection, house painting, shoe repair, and babysitting.

Dissave - to spend more than one's current income in any period of time.

Household income - total of the money payments received by household members primarily for the performance of services or for the production of goods.

Interest - the price of borrowed money; money payments made by households or banks for the use of money.

Money - anything which is generally acceptable in exchange for goods and services. Among other functions, money serves as a medium of exchange and as a standard of value. The money supply includes checking accounts, coins, and paper bills.

Rent - money payments for temporary use of a house, land, or some other property.

Saving - the portion of current income which is not paid out in taxes or in the purchase of consumer goods.

Savings - the total accumulation over a period of time of a household's financial assets.

Taxes - involuntary payments of money from individuals and businesses to government.

Economic Concepts

1. Household saving is that part of current money income which is not used to pay taxes and is not spent on consumer goods and services.

   Review: It has been noted that a family's income is received mainly from the sale of productive services furnished by the household to business. In turn, most of this household income is spent on the purchase of consumer goods and services. It has been noted also that part of household income must be paid to the government in the form of taxes. Now another dimension needs to be added to the use made of income by a household: Households may decide to save a portion of their income.

Household saving should be regarded simply as that part of household income which is not used to pay taxes and not used to purchase consumer goods. Assuming tax payments are given, the more a household spends on consumer goods, the less it can set aside as saving. Or, to put it another way, the more a given household saves at a particular point in time, the less it spends on consumer goods.

Saving, then, reduces the amount of income available to a household for the current purchase of consumer goods. However, it increases the amount of consumer goods which can be purchased in the future by that household. The specific reason why people save varies widely, but the general reason is that of increasing future consumption at a cost of present consumption. We may have a specific objective in mind like a new car, a college education, a vacation, or retirement. We may be saving for a "rainy day." In any case, saving decreases present consumption and permits increases in future consumption.

How much of its income a family will save depends on many factors, and no general rule covers all cases. It can be said, however, that families with higher incomes are more likely to save part of their income than are families with lower incomes. In addition, a smaller family may be able to save more than a larger family with the same income.

When families spend more than their current income, either by using past savings or by borrowing, they are dissaving. Dissaving permits increased present consumption, but if money has been borrowed, consumption will decrease when the loan and the interest charged for its use must be repaid.

Suggested Activity: In order to draw together many of the main ideas found in past generalizations and to add those related to saving, have the children play the simulation game described below.

Players:

1. Three families consisting of four, five, and six members.
2. Government personnel - at least one person to collect taxes paid by families and one or two to provide mail delivery service.
3. Three businesses each with several employees. One business will collect payments for basic consumption expenditures (rent, utilities, etc.). The second will sell consumer goods to the families. The third business will sell services or collect payments for services (doctor, dentist, plumer, etc.)
4. Bankers - to operate a bank and make change for the families and handle their savings accounts.

Materials:

1. Play money.
2. Record sheets (see examples at end of unit)
   a. record of each family's sources and uses of its monthly income
   b. government record of taxes received
   c. business records of sales made to families (pictures of goods being sold or receeips for bills paid should probably be used)
   d. bank records of deposits and withdrawals from savings accounts
   e. savings books for each family

3. Chance cards - (to be constructed on small cards by the teacher using the lists of contents following the game instructions) deck of 20 cards to start, with 5 additional cards to be added each subsequent day to replace those used.

General Instructions:

1. The game runs for five days, each day representing a month in the lives and budgets of our families; the Jones (6 members), Smiths (5 members), and Johnsons (4 members).

2. At the beginning of each month, each family, regardless of its size, receives an income of $600, in six $100 bills.

3. A "tax bill" should accompany the income. Each family must then go to the bank to obtain change and proceed to pay taxes to the government. The Jones must pay $40 each month; the Smiths, $45; and the Johnsons, $50.

4. The child acting as mailman should then deliver the bills for the basic consumption items. The following amounts can be used, at least for the first month, and then some may be varied slightly for subsequent months. However, the items listed as "basic consumption" should remain intact.

	Jones (6)	Smiths (5)	Johnsons (4)
Rent	$120	$115	$125
Utilities	35	33	30
Insurance	20	21	23
Food	180	170	155
Clothing	30	30	28
Gasoline	15	16	14
Total	$400	$385	$375

After obtaining the necessary change from the bank, each family must go to the appropriate business to pay these bills. Receipts should be provided, and the payments should be listed on the record sheet.

5. With the income that remains after taxes have been paid and basic consumption expenditures made, the families can move into "other consumption expenditures" by use of the chance cards. Each family must draw

five cards each month, one at a time, and follow the instructions.

Some cards will permit a choice of expenditures and, in later months, extra income may be received. Each family should list its income, taxes, and expenditures in the appropriate places on the record sheet.

6. The income that remains at this point is saving--it has not been spent on taxes or on consumer goods and services. All savings must be deposited in the bank. As the chance cards are set up, each family will break even or, more probably, save some of its income the first month and may save part of its income every month. However, new cards that are added each month increase the possibility that the families will have to use some of their past savings. If this situation arises, they must withdraw part of their savings and proceed with the activity. This is called dissaving.

7. After each family has deposited its saving (if any) in the bank, the mailman should then deliver reminders that each family must use part of its savings to make the monthly car payment of $60 (may also vary slightly for each family). The family must then withdraw that amount and make payment, noting this and the amount remaining in the savings accounts on their record sheet.

The children should be permitted to compare and discuss the progress of each family during the game. The following questions may be helpful:

What are the main uses of household income? (taxes, consumption expenditures, saving)

What is saving? (part of household income not paid in taxes or spent on consumer goods and services)

Why do families save? (many reasons--to purchase some expensive item in the future, for a rainy day, etc.)

By saving some of its present income, can a family spend all of its income on consumer goods? (no) Will it be able to spend more at some time in the future? (yes)

Do you think a family of six would be able to save more than a family of four if the incomes of both families were the same? (probably not) Why not? (more regular and unexpected expenses each month)

If a family's income increased, could the family spend more on consumer goods and services? (yes) Could the family save more? (yes) Could the family do both? (yes, the family might do both) Who decides what happens to the extra income? (the family who receives it)

Chance Cards

Each item below is to be put on a separate card. The deck for Monday consists of 20 cards, of which 5 will be drawn. Do not return these five to the deck. Instead, add the 5 listed for Tuesday to the remaining 15. Do the same for Wednesday, Thursday, and Friday.

As the decks are constructed, the families will save the first "month" and may save every month. But, with the addition of the more expensive cards, some families may have to use part of their savings to pay their bills.

Monday:

1. Attend drive-in movie. Pay $5.
2. Television must be repaired. Pay $17.
3. Family must buy each person a pair of overshoes. Price of one pair of overshoes is $3.
4. Susan takes piano lessons. Pay $8.
5. Refrigerator must be repaired. Pay $12.
6. Children need school supplies. Pay $7.
7. Children visit doctor. Pay $23.
8. Annie takes dancing lessons. Pay $6.
9. Billy's birthday: Buy bike--pay $20 or
   Buy new shoes--pay $5 or
   Buy basketball--pay $5.
10. David breaks neighbor's window. Pay $18.
11. Father has a tooth pulled. Pay dentist $14.
12. Decide whether family will: Buy swing set--$10 or
    Go to football game--$15 or
    Buy camping tent--$20.
13. Buy tire for car. Pay $19.
14. Power lawnmower needs repair and service. Pay $11 or use old hand lawnmower.
15. Mother's birthday: Buy new lamp--$10 or
    Buy perfume--$4 or
    Buy necklace and bracelet--$18.
16. Diane has a birthday party. Pay $9 for refreshments.
17. Junior needs a haircut. Pay $2 or have mother cut it.
18. Mother and father go to P.T.A. meeting. Pay babysitter $2.
19. Subscribe to children's magazines. Pay $6.
20. Contribute to United Appeal--$5.

Tuesday: (Add the following five cards)

1. Father works overtime. Earns $18 extra income. Pay $2 extra taxes and draw another card.
2. Shingles are blown off the garage. Replacement costs $23.
3. Cousin Nancy is getting married. Buy: Electric coffee pot--$13 or
   Electric mixer--$15.
4. Mother has permanent wave. Pay $16.
5. Amy needs a new winter coat. Pay $25.

Wednesday: (Add these cards to the deck)

1. Bank pays interest. Go to bank and get $1 interest for every $20 in your savings account. (enter as "other income") Draw another card.
2. Carla needs glasses. Pay $30.
3. Four (4) members of family take swimming lessons. Pay $40.
4. Piano needs tuning. Pay $21.
5. Family room must be painted. Hire painter and pay $33 or have father do it and buy paint for $13.

Thursday: (Add these cards)

1. Need new battery for car. Pay $27.
2. Buy Christmas presents. Pay $56.
3. Kitchen sink is clogged. Pay plumber $19 to fix it.
4. Need new license for car. Pay $36.
5. Clothes must be dry cleaned. Pay $15.

Friday: (Add the following cards)

1. Need new electric range. Make $35 down payment.
2. Mother wins $50 in gas station game. Add to income, pay $7 extra taxes, and draw another card.
3. Father needs new suit. Pay $85.
4. Jerry falls and chips his front teeth. Pay $26 for recapping.
5. Dad has a week of vacation. Drive to Colorado to visit relatives--$198; or go camping in state park--$63.

Each family should keep the following record for every "month" of the game:

First Month

Income

1.
2.
3.
4.

Total ______

Taxes

1.
2.
3.
4.

Total ______

Basic Consumption

1. Rent
2. Utilities
3. Insurance
4. Food
5. Clothing
6. Gasoline

Total ______

Other Consumption (Chance Cards)
If you do not have enough income for all of these purchases, you must withdraw part of your savings from the bank

1.
2.
3.
4.
5.

Total ______

Have you saved any of your income this month?
If you have, how much?______
Deposit any saving in the bank.

What is your total savings in the bank? ______

You must make a car payment of ______. Withdraw part of your savings to make your car payment.

How much savings do you have left? ______

The government should keep the following records as the families pay their taxes each month:

Government
Tax Receipts

	First Month	Second Month	Third Month	Fourth Month	Fifth Month
Jones					
Johnson					
Smith					

Each business should keep a record of sales to each family for each month. It should note what items are purchased and the prices of each item.

Jones
First Month

Item	Price
1.	
2.	
3.	
4.	
5.	
Total	

The following record should be kept at the BANK for each family:

Name:				
Date	Withdrawals	Deposits	Interest	Balance
1.				
2.				
3.				
4.				
5.				

Give each family a savings book set up like the bank's records:

Name:				
Date	Withdrawals	Deposits	Interest	Balance
1.				
2.				
3.				
4.				
5.				